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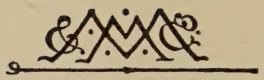

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BRITISH BUDGETS

Second Series

1913-14 TO 1920-21

BY
SIR BERNARD MALLET, K.C.B.
AND
C. OSWALD GEORGE, B.Sc.(Econ.)

MACMILLAN AND CO., LIMITED
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PREFACE

SIXTEEN years ago I published, under the title *British Budgets, 1887-88 to 1912-13*, a volume which, like its prototype, a well-known book by Sir Stafford Northcote afterwards Lord Iddesleigh, was intended to provide a "convenient summary of the financial measures of recent years." I have postponed the preparation of a continuation of that work longer than I should have done had I realised the amount of the material to be dealt with in an account of war and post-war budgets, which has made it impossible to include more than ten budgets in the present volume. My colleague and I have therefore been obliged to defer bringing our subject up to date to another which we shall hope to issue without undue delay. This volume, accordingly, is confined to the war budgets (which have already been ably dealt with in other publications though not on similar lines to ours), beginning with one normal pre-war budget (1913-14) and ending with a post-war budget (1920-21), which marked the highest point of revenue so far reached in this country. The plan of my earlier book has been exactly followed in this one, but certain points, particularly in connection with expenditure and local taxation, must be deferred for discussion to our next volume.

The interest of the present series is of a very different kind from that of the series completed in

1913. In that quarter of a century it fell to me to trace a development of public finance of a gradual and orderly kind, even allowing for what at the time seemed the almost revolutionary character of Mr. Lloyd George's first budget—a " process of expansion and adjustment," as I then expressed it, " by which the revenue system had been enabled to cope with the increasing cost of administration " and " a successful endeavour made to apportion the burden of taxation, both as between individuals and as between classes, in accordance with modern theories of equity." The interest of the period was enhanced by the personality of the protagonists; and such men as Goschen, Harcourt and Hicks-Beach all made themselves felt as masters in their financial household.

In our present period not only were men generally overshadowed by the cataclysmic events with which they were faced, but the character of the budget speeches and of the financial discussions suffered both from the comparative absence of party controversy, and from the fact that, alike in Parliament and outside, the war was the all-absorbing topic, and the raising and spending of vast sums of money a mere incident in its prosecution. Never in our history, however, had the necessity for so tremendous a financial effort arisen, nor the after-effects of such an effort on the position of the country been more profound. Important as are the lessons which may have been learned for future guidance on the problems of war finance, loans, inflation and so on, of even greater interest from our point of view are the changes which have been brought about in the budgetary conditions of subsequent years, and the impetus given to tendencies in

public finance which, as I noticed in the preface to my earlier work, had been in progress for many years before the outbreak of the war.

The raising of the standard of living, the creation and satisfaction of new wants, the weakened sense of the need for economy, both public and private, the unlimited confidence in the efficacy of public action and public money in dealing with social problems, and the widened conception of the objects for which taxation may legitimately be imposed—such tendencies as these, coupled with the decline in the power of Parliament and of Governments to control expenditure, whether national or local, may or may not have been the inevitable consequence of the democratisation of our political institutions. All these tendencies have in any case been immensely stimulated by war conditions and war expenditure, and increasingly embarrass and complicate the problems of public finance. But in spite of a disproportionate amount of unemployment the social condition of the population presents some encouraging features ; and there is the appearance, if not the reality, of increased and widely diffused material well-being, and even luxury, which is hard to reconcile with the fact that the war has seriously jeopardised the commercial position of this country in comparison with rivals wealthier or more hard-working and hard-living than ourselves, and has imposed upon us a load of taxation which to pre-war financiers would have been unimaginable.

In view of the experience of the last few years it would nevertheless be hazardous to question the possibility of some similar revenue expansion in the

future. But there must be a limit to the amount of taxation which a country situated as Great Britain is to-day and dependent, as she is, for the very existence of her population on foreign trade, can support; and students of British financial and economic conditions will not be disposed to take an optimistic view of the capacity of the taxpayer to bear an increased burden. There is however every indication that the growth of public expenditure will continue to outrun the natural growth of the revenue, and that increasing resort will be had to the direct taxation of accumulated wealth to satisfy the lavish demands of the modern state.

Such a process cannot long continue unless wealth is continually replenished, and the industrial and productive capacity of the nation can be made at least to keep pace with the growth of expenditure. The present Chancellor of the Exchequer, Mr. Snowden, has lately emphasised the interdependence of finance and industry, and reminded us in the gravest terms that "the national revenue can only be derived from trade," and that "therefore it is a matter of supreme importance that we should put forth our efforts . . . not merely to restore trade—that is not enough—but to expand and increase our trade." How to reconcile these conflicting claims, whether, in short, taxation even on its present scale can continue to be levied without discouraging and restricting commercial and industrial enterprise—this is the vital question which is being forced to the front by the abandonment of all real hope of economy in public expenditure. It is one which hardly arises in connection with the budgets now under review, though it

will be present to the minds of those who study them. But a good deal of light will no doubt have been thrown upon it before the publication of our next series.

I have to thank the Controller of H.M. Stationery Office for permission to reproduce various tables, or portions of them, from Government publications and reports. There are some private friends who have kindly allowed me to consult them on certain points, but my principal obligation is to Mr. C. O. George, without whose assistance I could hardly have embarked on this new series. The appearance of his name on the title page as joint author with myself is an indication, however inadequate, of the part he has played in the preparation of the present volume.

B. M.

October 1929.

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PART I.

BUDGET STATEMENTS, DISCUSSIONS AND TABLES.

MR. LLOYD GEORGE'S BUDGETS.[1]

FIFTH BUDGET, 1913-14.

April 22, 1913.

Mr. Lloyd George's fifth budget, opened on April 22nd, 1913, demands attention as the culminating point of the whole series since 1909-10. It was the last which was to be undisturbed by the war, only foreshadowed to those who were following developments in Germany by the steadily rising expenditure upon the Navy. Many years were to pass before a normal position was again to be reached, and then only on a basis revolutionized by events which had produced a profound and perhaps permanently adverse effect on the financial and economic condition of the nation. In itself the budget, clearly and fully presented, was quite unsensationally simple. Mr. Lloyd George estimated the expenditure at the "very gigantic" figure of £195,640,000, pointing out, however, that certain items, such as £3,500,000 for naval works

[1] The last budget described in the volume of *British Budgets* published in 1913 was that for the year 1912-13, but on page 347 of that volume some reference was made to the budget statement of the succeeding year, 1913-14, for the purpose of completing its history. Beyond repeating that the year 1912-13 had been "the most prosperous year that British trade had probably ever seen so far," in spite of the coal strike, the bad harvest and the menace of war in the East, it need only be mentioned here that, although the estimates both of Revenue and Expenditure had again been wide of the mark, both having been considerably exceeded, a surplus had been realized of £180,000.

(which included Rosyth) were in the nature of capital expenditure, which, before the change of policy initiated by the Prime Minister, Mr. Asquith, in 1906,[1] would have been borrowed. On the basis of last year's receipts, this left him with practically £7,000,000 more to be provided, or £7,500,000 allowing for an estimated decrease in miscellaneous receipts. Last year he had been deprived of £550,000 by the coal strike, and he reckoned on receiving £430,000 held back last year by reason of tobacco, sugar, and tea not having been taken out of bond. He stated that altogether there was £1,350,000 " which we can comfortably expect this year " over the receipts of last year, while the normal development of the taxation imposed in 1909 would give him an additional £845,000, leaving still over £5,000,000 to be found.

To meet this Mr. Lloyd George relied upon the exceptional growth of revenue which is always the result of unusually good trade. There was no indication that the trade boom which had begun in 1910 had yet completed the cycle. The one disturbing factor was the trouble in the East of Europe which, however, was creating much more apprehension on the Continent than in England. But the general feeling in diplomatic quarters was that the greatest point of danger had been passed, and in any case there were sufficient orders to keep the workshops and factories of the country in full work for months to come. In almost every item of revenue, therefore, except stamps and miscellaneous revenue, Mr. Lloyd George had the courage to budget for considerable increases, and although, as in the previous year, he was much

[1] *British Budgets*, 1913, p. 260.

criticized for doing so, he was again to be justified by the event. By means of appropriating £1,000,000, part of the £1,500,000 which had been set aside in the Exchequer balances from the old Sinking Fund in the previous year[1] for the purpose of meeting under-spending by the Admiralty in the year before but which still remained unexpended, he brought the estimated revenue up to £195,825,000, which left him with an estimated surplus of £185,000.

The relief of the House at finding that no fresh taxation was to be imposed rendered the Opposition comments somewhat half-hearted. A certain amount of criticism was directed to the reversion to the practice, abandoned in view of the controversy in a previous year between the two Houses, of two Bills, a Finance Bill, confined to the renewal of the taxes of the year, and a Revenue Bill on which amendments of the law arising out of the Finance Bill proposals could be discussed.[2] Mr. Austen Chamberlain made much play with the effect on debt redemption of the proposal to take the £1,000,000 from the Exchequer balances to meet the year's expenditure, and a good deal of argument took place between him and Mr. Masterman and Mr. McKenna in an attempt to clear up what really had happened, important in a technical sense but of no special interest to-day. It was a faint echo of the controversy which had arisen in the previous year over Mr. Lloyd George's attempt to take £7,000,000 from the old Sinking Fund.[3]

Of the two days, April 28th and 29th, allotted to the discussion of the budget resolutions, one was almost

[1] *British Budgets*, 1913, p. 339. [2] *Ibid.*, p. 349.

[3] *Ibid.*, pp. 337-339.

entirely occupied, and indeed, in view of the fact that the budget had been discussed over and over again since 1909, some thought wasted, by a full-dress debate on the land taxes, something like one hundredth part of the expenditure presented in the budget. Several grievances which had of late attracted public attention were ventilated by Mr. Pretyman and other speakers, but no new points were made; on the one hand, for instance, it was again pointed out that the only one of these duties which produced any revenue was in reality less of a land duty than an extension of the income-tax; on the other (by Sir Alfred Mond) that an increment tax could not be expected to bring in revenue until, as had been arranged in the case of similar German taxation, there had been time, owing to a pre-dated valuation, for revenue to accrue. The debate, however, drew from the Chancellor of the Exchequer a spirited defence of the land valuation which he had set up and which was now approaching completion, attributing to it among other advantages an improvement in the yield of the estate duty.

For the rest the chief interest of this budget, especially when considered as the prelude to a series of budgets which were soon to dwarf all previous experience in the magnitude of their figures, was the discussion on the growth of expenditure to which Mr. Lloyd George, early in his speech, had directed the attention of the House. He compared the present expenditure with what it had been fifty years earlier. In 1861, after the Crimean War and the Indian Mutiny, Mr. Gladstone, in submitting a budget estimate of £70,000,000, had called special attention

to the alarming growth of expenditure, especially on naval and military armament. In 1913 Mr. Lloyd George, in speaking of an estimated expenditure of £195,640,000, used such expressions as "colossal," "gigantic" and "startling"—expressions which must have seemed to his hearers even in those days somewhat exaggerated if they reflected on the immense growth in the same period both of population and of the national income. And he himself proceeded to attenuate the impression made by the quoted figures by an analysis of the items.

He drew attention to the fact that the largest increase had been on armaments—from £28,285,000 to £74,544,000—but while he described this expenditure as "sterile" he apologized for it on the ground that it was "dependent not on the will of Government or the House of Commons so much as on the concerted or rather competitive will of a number of great nations of whom we constitute one of the most potent"; and it may now be added that this expenditure, largely on the Navy, whether "sterile" or not, proved no more than sufficient to avert the defeat of this country at the very beginning of the Great War.

But Mr. Lloyd George's main object in his analysis of the growing expenditure was to draw attention to the "remarkable" and "significant" change in its character, and to vindicate the "larger sums spent upon objects which give a promise of strength and happiness to the nation." Seventy millions of the increase was accounted for by such items as the Post Office (£3 millions to £24 millions), Education, £1,200,000 to £19,200,000, not to speak of £16,600,000 from local rates which contributed nothing in 1861.

There were also grants in aid of local taxation £11,000,000, and votes for Pensions, and Labour Exchanges, Health and Unemployment Insurance and Staff (£20,000,000), none of which items appeared in the budget fifty years ago. This was described as " productive " expenditure, expenditure which " fertilizes and enriches." Finally the dead-weight debt had fallen from £821 millions to £661 millions, from £28 per head of the population to £14 ; we were reducing it at the rate of £12 millions a year ; and as regards the means of the nation to meet its expenditure, 1d. on the income-tax produced £5 millions as against £875,000 in 1861. His conclusion, therefore, was that there was only one item—the expenditure on armaments—" which created any profound disquiet," the rest representing increases from which " we reaped more than we sowed."

As things then stood Mr. Lloyd George was justified in the optimistic view he held of the financial situation, and it was a subject of legitimate satisfaction that the increased expenditure of the last four years should have been successfully met by the provisions of the budget of 1909. The new taxes imposed in that year had, according to his statement, yielded in 1912-13 the sum of £25,655,000. During that period taxes on food had been reduced by nearly £5,000,000, those on small incomes and in allowances for agricultural and cottage repairs by £2,500,000, £12,000,000 had been provided for National defence, £20,000,000 to make provision for the aged poor, the sick, the infirm and the unemployed ; and by the end of the next financial year the dead-weight debt would have been reduced by £102,000,000. This was a record of which the

Chancellor of the Exchequer might well be proud, and it was certainly a successful example of the policy enunciated by Mr. Asquith in his second budget speech when he deprecated the method of treating each year's finance as if it were self-contained, and reaffirmed the doctrine that a Chancellor of the Exchequer ought to budget not for one year but for several years. It must not be forgotten, however, that Mr. Lloyd George had been favoured and assisted by a cycle of good years. "Trade," as he said on this latest occasion, "was at its best, unemployment at its lowest, profits were at their highest, home and overseas trade had attained dimensions they had never approached, and the business, commerce and industry of this country enjoyed a productivity and prosperity which had rarely been witnessed in the history of the country!"

There was certainly no evidence, Mr. Wardle claimed, that, at the level at which they then stood, the income-tax, super-tax or death duties had hampered the development of the country. Mr. Sydney Arnold, in an able maiden speech, calculated that the percentage of tax revenue to the total income of the country was only 8 per cent.—lower than that of either France or Germany—and quoted Sir Robert Giffen to the effect that 10 per cent. would be a normal figure in this connection, while he reminded the committee that the annual savings of the country after payment of all taxes amounted to not less than £300,000,000 per annum, in comparison with which the annual amounts raised on super-tax and death duties, £3,300,000 and £26,750,000 respectively, were insignificant.

But the writing was already on the wall, and never in our time can we hope to hear a Chancellor of the Exchequer and his friends speak in so exultant a strain. There were some darker shades in the picture temporarily masked by the tide of trade prosperity. One or two voices from Labour benches insisted that there had been a relative decrease in the spending power of the working classes owing to the rise in prices which had taken place in the last few years. Mr. Snowden was one of those who asserted unequivocally that " the cost of living had been increasing without a corresponding increase in wages." Mr. Lloyd George had referred to the enormous production of gold as a favourable factor, but neither he nor any other speaker hinted at the possibility that this might have been the underlying cause of the check in the progress of the rise in real wages which had occurred since the early years of the century. But this fact, if it were a fact, gave some weight to the Radical demand for the abolition or reduction of the sugar and tea duties, which reappeared in the discussions, and indeed formed the leading feature of the debates on the second reading of the Finance Bill on June 2nd on a motion by Mr. Snowden to discontinue the system of " taxing the food of the people whereby the unfair proportion of taxation upon the poorer classes is aggravated instead of abolishing such injurious and indefensible forms of taxation and raising the necessary revenue by increasing the direct taxes on unearned income and large estates." Mr. Snowden considered that indirect taxes violated every canon of taxation because they tax a man, not in proportion to his ability to pay, nor according to the benefits he

receives, but according to his personal tastes; and he admitted that "it is not a very difficult thing for a man who does not pay income-tax to avoid paying a single penny of contribution to the taxation of the country." He went so far as to contest the observation of the Chancellor of the Exchequer in an earlier speech that there ought to be no class of the community enjoying political power and yet making no financial contribution to the State, on the ground that "the poor" are paying a good part of the cost of the maintenance of the nation "because they work and labour and create the wealth of the nation" and that "the taxation of the idle rich is really a payment which has been made by the poor who have been exploited." To this statement of pure Socialist theory he added that the State had "no right to tax any individual until it had ensured that the individual was able by honest labour to maintain himself and those who were dependent on him in a degree of physical efficiency, health and comfort." To this argument little exception could be taken; but it would have produced a greater impression on his hearers if they had not been fully aware that no fiscal system in the world had paid more attention to this principle than the British, and that, as regards Imperial taxation at all events, there was little margin for further relief in this direction. Even Mr. Snowden, speaking as a "practical man," only demanded the remission of 10 millions of taxation on the poorer classes, for he did not seriously challenge the taxation of liquor and tobacco.

This speech provoked important pronouncements both from the Chancellor of the Exchequer and from

the Prime Minister. Mr. Lloyd George reiterated the opinion he had already expressed of the impolicy of exempting a very considerable proportion of the population, including men "not earning £1, not £1 10s. 0d, but £3 a week, from a contribution towards imperial taxation," classes "which had great political power and which benefited exclusively from services such as pensions, insurance and education, to which they would contribute nothing in taxation." He questioned whether a tax which might have the effect of restricting the quantity of tea or even of sugar consumed would be an unmixed evil, and he refused to take the responsibility of wiping out "these taxes, and leaving a great portion of the community with no taxation at all, and with all the powers they possessed at present of directing expenditure and of increasing it . . . at the very moment when every party in the State was suggesting new forms of taxation for the benefit of particular classes, whom they were now called upon to leave out of taxation altogether."

Mr. Asquith spoke even more impressively in the same sense a few days later (June 11th). He challenged Mr. Snowden's contention that the working classes had no interest in the maintenance of the Army and Navy as "an unthinkable argument," maintaining that the only justification for our enormous and increasing national expenditure, whether on armaments or social services, was that it was warranted in the common interests and not in the interests of one class alone. But while he demurred to the setting up of a debtor and creditor account as between the working classes and the State, he criticized on the one

hand Mr. Snowden's estimate of the contribution of the working classes to the revenue as being too high, and on the other his estimate of the amount which these classes received as being under the mark. He had, he said, " never seen his way since he had to do with these matters as a practical and responsible statesman, to any rearrangement of our fiscal system which ought not and would not of necessity involve the imposition upon all classes without any distinction —he was not speaking of those who are below the poverty line—in this country of something in the nature of an adequate proportionate contribution to our national expenditure " ; and, while insisting on the fact that a large part of our indirect taxation might fairly be described as " sumptuary taxation " of what are not necessaries of life, such as alcohol and tobacco, he concluded : " I do not think we are within measurable distance of seeing the total abolition of all taxes upon food, because though I admit to the full the economic objections, I do not see in what other way you can raise your revenue."

Mr. Lloyd George indeed had said that there was " only one way in which you could really get the working classes to contribute fairly, and that was undoubtedly the method adopted in the Insurance Act," where the tax fell upon the man who was actually earning wages at the time. Other speakers, more than one of them representative of Labour, had spoken of an income-tax upon the wage-earners as an alternative to food taxation ; and it cannot be doubted that, if such a measure could have been introduced, its moral value as a check upon expenditure in a democratic community would have far

outweighed any loss of revenue it might have involved. The difficulties of collection could have been overcome. But the final argument against any such proposal was that of political inexpediency. Mr. Lloyd George's cynically jocular remark: "I would like to see the Chancellor of the Exchequer who would go out of his way to propose that" disposed of that alternative, once and for all.

There was one other alternative to food taxation which attracted comparatively little attention with a Parliamentary majority which still represented the free-trade triumph over tariff reform in 1905. Mr. Austen Chamberlain, who heartily supported Mr. Asquith's utterances, was not on strong ground (as the event was soon to prove) when he asked whether it was not an objection that the revenue was collected from so few taxes, because they had to be kept at a high point to meet normal expenditure and therefore could not be sensibly expanded to meet the "almost limitless liability that might fall on the country at any moment in the case of a European convulsion." A general tariff such as he and Mr. Hewins stood for would, whatever its other merits, certainly not have shown the marvellous elasticity of the existing fiscal system in the event which he foreshadowed in these words.

But Mr. Chamberlain's speech was noteworthy from his analysis of the effect, both on the revenue and on the consumer, of duties on articles which can and cannot respectively be produced in the country. The question of the revenue possibilities of the taxation, for instance, of imported manufactured goods alluded to by other speakers in the debate is one which is

certain to assume importance in the near future in view of the drift away from the traditional free-trade feeling of the country in recent years, and the protectionist tendencies of important sections of both the Conservative and the Labour parties. Some apology is perhaps needed for these references to the issue between direct and indirect taxation which, together with the growth of expenditure, formed the theme of much comment in the previous volume of *British Budgets*. It is, however, of great interest to note that these same questions of incidence will still continue to be discussed in post-war budgets in almost similar terms, and that the language of the majority and minority reports of the Colwyn Committee (1927) on the subject of food taxation and the necessity of requiring some actual tax contribution from the large majority of the population who are untouched by the immensely increased burden of direct taxation reflects with curious exactitude the arguments of Mr. Asquith and Mr. Lloyd George on the one side and of Mr. Snowden on the other.

It must be freely admitted that the amount of additional taxation, direct and indirect, which could be borne by the country was far from being realized by any party in Parliament before the war. But this admission does not detract from the importance of such criticism as that made by Mr. Austen Chamberlain in the course of these discussions, criticism applicable with ten-fold force at the present time. He spoke in grave terms of the fact that even with the "huge" additions provided by the budget of 1909 "our expenditure was growing faster than our revenue," and he deplored the manner in which "in

these good times of abounding trade and with an expanding revenue we are spending every penny that we can get, mortgaging every penny of future increase that we can foresee, while in the good times we are enjoying we are creating no reserve for the bad times which we may have to pass through . . . " ; and he prophesied truly enough that the Chancellor of the Exchequer would not be able to get through another year without an increase of taxation.

Mr. Lloyd George, in his review of expenditure, spoke of it, as we have seen, in three categories. The considerations he put forward as to expenditure on armaments apply with equal force to the present day. The existence of the League of Nations and of Pacts and Agreements for the prevention of wars or the limitation of armaments still leaves this expenditure " dependent on the concerted or competitive will of a number of great nations," and no human being can decide whether it is " sterile," or " productive " in the most vital sense of that word. This country is now paying, at a time of profound peace, at the rate of something like £117 millions per annum, an amount, if the difference in the value of money is taken into consideration, relatively, perhaps, no greater than before the occurrence of the late war,[1] but when added to the burden of past expenditure on war

[1] In view of the prominence of the topic of naval expenditure in the years immediately preceding the war, it is of interest to note the comparison made by Mr. Bridgeman, First Lord of the Admiralty, in the House of Commons on March 14th, 1929, between the estimates in 1914 and in that year. " Comparing like with like, our estimates this year (1929-30) are £2,100,000 less than those of 1914," and " when you consider the difference in the value of money, apart from the question of the new effective vote, actually less than in 1914 by £27,000,000."

it forms a "burden of taxation," as Lord Cecil observed in October 1927, "greater than we can bear. . . . Out of every pound of taxation we pay, fourteen shillings is due to past wars or the preparation for future wars, eleven shillings of that, pensions and payment of debt, has already been incurred."

A commentator on the growth of expenditure, nevertheless, would hardly agree that this item of the present expenditure on armaments is now the "only one which creates any profound disquiet." Even allowing for an increase of population and of "wealth," however computed, the increase on account of the various "social services" which took place in the years of our present period (see Part II., page 318) must give rise to serious consideration. Expenditure on armaments is at all events kept within bounds by the vigilant if not vehement criticism of at least one great Parliamentary party, and there is at least a hope that sanity may in time prevail in international relations. Expenditure on social services, on the other hand, commands the enthusiastic approval of all parties, and the addition by the Franchise Acts of 1918 and 1928 of millions of voters to the electorate, who are totally irresponsible from a financial point of view, has made it at once more necessary that some form of taxation which they feel as such should be imposed upon them, and more improbable that it will be. As regards this class of expenditure, therefore, while opinions may differ as to how far, when carried to its present pitch and under actual conditions of human nature, it is "beneficial" or "fertilizing," there is no definite limit to its growth except the

financial exhaustion of the State. For some time to come, however, it would seem that any considerably increased resort to the direct taxation of wealth and income for such purposes must be limited by the very large amount now required, mainly from these sources, for the service of the debt.

It remains to be noted that the second reading of the Finance Bill was carried on the 11th of June, that it passed through the Committee stage, with the addition of one new clause only, on August 12th.

The Revenue Bill, which embodied concessions in certain parts of the land taxes to meet the criticism repeatedly and forcibly made during the session, proved unexpectedly controversial, and was withdrawn on the same date with a promise of re-introduction early in the following session ; and the third reading of the Finance Bill was taken on the following day, when Mr. Austen Chamberlain rose to enter a protest against the general conduct of the financial business of the Government. The division of the budget into two Bills as described above had been defended on the ground, among others, that it would give the House more ample opportunity for discussion, but neither the Finance Bill nor the Revenue Bill had been brought up in the Committee stage until the last week but one of the session, when it was in the power of an insignificant minority to hold up the whole business by objecting to certain provisions. He blamed the Parliament Act as being largely responsible for the congestion of business. Mr. Lloyd George made a not ineffective reply to this speech when he pointed out that there had been in that session " a real attempt to face the financial situation " and

remarked that in the time which had been available he " was not sure that he had seen Parliament devote itself so exclusively to the consideration of purely financial questions as it did during that period." He spoke in a very pessimistic vein of the possibility of setting any limit to expenditure upon armaments, which would go on until the nations cried " Stop." He repeated that he did not look upon expenditure on social reform in the same light, as it improved the health and added to the strength of the people.

The royal assent was given on August 15th.

MR. LLOYD GEORGE'S SIXTH BUDGET, 1914-15.

May 4th, 1914.

On the surface, there was little to indicate the fateful days in store when, on May 4th, 1914, Mr. Lloyd George introduced his sixth budget. In this country trade had reached the highest point, and unemployment the lowest point ever recorded. In view of the existing economic conditions in other countries, such exceptional prosperity, he suggested, was all the more gratifying, and should be a source of encouragement to those who harboured any doubts concerning Britain's industrial future. The previous budget, although no increased taxation was proposed, had been based on an increase in revenue of £6,023,000, but the actual receipts had shown the unprecedented increase of £9,441,000. Mr. Lloyd George had been accused, the previous year, of being unduly optimistic in his revenue estimates, and he was therefore doubly

pleased to be able to point out that his calculations had been more than justified by the actual receipts. Supplementary estimates, for more than two-thirds of which the Navy was responsible, amounted to £3,371,000, but these were partially counterbalanced by savings on various departments, so that finally there was, instead of an expected deficit, a surplus of three-quarters of a million pounds.

The estimated expenditure for the current year, compared with the actual expenditure of the preceding year, showed an increase of nearly eight and a half million pounds, of which the Navy was responsible for £2,717,000, and the Army for £539,000. Naval expenditure had increased far more rapidly in recent years than had been anticipated. In 1909, a time of abnormal shipbuilding, it had been expected that Naval expenditure would go up to £44,000,000, but that after the abnormal period had passed, it would revert to £40,000,000. There had been since then, however, a continuous increase, which Mr. Lloyd George attributed to foreign shipbuilding programmes and to " the Continental situation." For the current year, the Naval estimates amounted to £51,550,000, an increase of more than five millions over the previous year's estimate. The tax revenue for the current year was estimated, on the basis of the existing rates of taxation, at £164,875,000, while the total estimated revenue was £200,655,000, an increase of nearly two and a half million pounds compared with the actual revenue in the preceding year. As the estimated expenditure amounted to £205,985,000, there was a deficiency of more than five million pounds, to which had to be added fresh expenditure, including the cost

of the scheme for the readjustment of the relations of local and national finance, which Mr. Lloyd George proceeded to unfold in great detail.

The proposals were intended to remodel the existing system of local taxation, and were the outstanding feature of the budget, which was subsequently claimed by some of its more enthusiastic admirers to be of equal, if not of greater importance than the so-called People's Budget of 1909. Local finance had for a long time been in a very unsatisfactory state. For many years, each successive Parliament had imposed arduous and important duties upon local authorities, but seldom had any provision been made for Exchequer contributions although such duties were largely "national and onerous." Definite promises to rectify the matter had been given by leaders of both parties, but nothing had been done. The result was that finance was often the reason, and occasionally the excuse, for the non-performance in many districts of duties essential to the health and proper development of the community. As the result of agitation by local bodies for increased contributions from central funds, a Departmental Committee under the chairmanship of Sir John A. Kempe, K.C.B., was appointed in 1912 to consider the whole question of the relations between Imperial and Local Taxation. The final report, which dealt primarily with England and Wales, and was accompanied by a minority report on the rating of land values, was made on March 3rd, 1914. The budget proposals agreed in the main with the recommendations embodied in the final report, but there was one important exception. Mr. Lloyd George adopted the principle, recommended by the

minority but definitely rejected by the majority, of a site value rate.

The Chancellor proposed to deal with the pressing need of the local authorities for increased revenue, and, at the same time, to remedy many other defects, which he enumerated, in the existing system of local taxation: rates were assessed upon property which was not a true index of ability to pay; property was not valued fairly or uniformly, and the more it was improved, the more the assessment was raised, which was, in his opinion, an indefensible policy; in certain districts where needs were greatest, the rateable value was lowest, and the burden was inordinately heavy, while owing to the existing system of Government subventions, the contribution from the Exchequer was becoming less and less in proportion to the amount of local expenditure; and, finally, there was the grievance created by the Agricultural Rates Act, under which the amount of the central grant was fixed, so that the continuous increase in the rates meant that those who were not engaged in agriculture had to bear not only their own share, but also one-half of the share which the farmers would have borne had the Act not been in force. He maintained that nothing but substantial aid from the Exchequer could save the municipalities from bankruptcy, but mere subsidies, unless accompanied by definite conditions, would be harmful.

He based his proposals on five principles. The first was that there should be established for local taxation a national system of valuation in which site value and improvement value should be separate and distinct, the intention being to adopt the valuation of the Land

Valuation Department. Secondly, the relief to each ratepayer was to take the form of a reduction in the rates on improvements only.[1] The Government's attitude, which was maintained to the end, was that the grants, including provisional grants for the current year, were entirely conditional upon the passage of legislation based on these two principles. These principles, however, raised the bitterest opposition, and to them may be mainly attributed the subsequent abandonment of the scheme. The third principle was that the relief should be distributed so as to give the greatest help to the most hardly pressed areas, and not merely to the poorer districts but to those which showed the greatest public spirit. Fourthly, instead of being fixed, grants were to bear a direct relation to expenditure, and the existing system of assigned revenues, together with the Agricultural Rates Grant, was to be abolished. And, finally, all grants were to be conditional upon the performance of duties by local authorities to the satisfaction of the central Government.

The new grants were admittedly not intended solely for the relief of the rates, but were to be used partially as a direct encouragement of special services, and would thus tend to some extent to increase the

[1] The following, assuming that the reduction would be equal to a shilling rate on improvements, shows how the amount of relief would vary.

Total Annual Value of Land and "Improvements" - - -	£50	£50	£50
Annual Value of "Improvements" -	£40	£25	*Nil*
Annual Value of Land (Site Value) -	£10	£25	£50
Relief to ratepayer (at 1s. in the £ on portion of the total Annual Value attributable to "Improvements")	40s.	25s.	*Nil*

rates. In assigning the grants, the Goschen precedent was to be followed, by which England and Wales would receive 80 per cent., Scotland 11 per cent., and Ireland the remainder, except in the case of Irish education and police, the expenditure on which was borne almost entirely by the Imperial Exchequer. In the first full year, the total amount of the new grants for England and Wales would be £16,985,400, and after deducting the Government subventions which would be discontinued, there would be a net increase of £9,200,000. Scotland would receive a net increase of £1,265,000, and Ireland's share would be £630,000, the total net increase in Exchequer contributions thus amounting to £11,095,000. For the current year, however, the total net increase would amount to only £3,018,000.

The proposals of the Kempe Committee with regard to the poor law were to be adopted, and in the first full year, the grant for England and Wales would amount to £3,615,000, Scotland and Ireland receiving their Goschen proportions of that amount. The existing police grants were to be increased to 50 per cent. of the expenditure incurred on this service. Roads would be classified by the Road Board, and although third class roads would not be subsidized, grants would be made towards the upkeep of first and second class roads to the extent of one-half and one-quarter respectively of the expenditure incurred. One-half of the cost of criminal prosecutions, which under the existing system had to be borne almost entirely by local bodies, was to be borne by the Exchequer, while there were to be further grants in respect of mental deficiency, the Shop Acts and

Employment of Children Act, reformatories and industrial schools.

Mr. Lloyd George proposed to stimulate, by means of substantial grants, those local activities which dealt with the prevention and cure of disease, and with the promotion of national health. Grants, amounting in a full year to £4,000,000, were to be made towards housing and the clearance of slum areas, the provision of hospitals, small holdings and allotments, and the fight against tuberculosis. Grants in aid of education, distributed so as to give the greatest relief to the poorest districts and to those where expenditure was highest, would entail in England and Wales alone an expenditure of $2\frac{3}{4}$ million pounds, all of which would go to the reduction of rates; additional contributions would be made for the specific encouragement of schools for deformed and mentally defective children, maternity centres, the provision of meals for school children, and for technical, secondary, and higher education.

Additional expenditure was to be incurred in connection with National Insurance. A sum of £1,250,000 was to be used to help deposit contributors, to assist certain societies which, owing to circumstances beyond their control, were financially embarrassed, and for the institution of a system of medical referees and consultants.

The total fresh expenditure for the current year was estimated at £4,218,000, of which the proposed Local Taxation Grants accounted for £2,182,000, Education for £586,000, Insurance for £1,000,000, and Tuberculosis, Nursing and Pathological Laboratories for £250,000; the balance consisted of £80,000 for the

proposed new system of valuation, £45,000 for the collection of the new taxes, and £75,000 to meet the proposed increases in the wages of the lower grades of Post Office servants. Mr. Lloyd George said that in order to provide for these fresh disbursements, for the deficiency of over five million pounds which he had previously disclosed, and for a small margin for contingencies, he would have to find additional revenue amounting to £9,800,000, which would be mainly, however, not an increase but only a readjustment of the national burden, the ratepayer profiting at the expense of the taxpayer.

Indirect taxes were to remain unaltered, and almost the whole of the deficiency was to be met by various increases in the income-tax, the super-tax, and the death duties. Five and a half millions were to be obtained from income-tax payers, the maximum rate being increased from 1s. 2d. to 1s. 4d. Earned incomes up to £1,000 were to remain unaffected by the increase, but on earned incomes above that figure and on all unearned incomes, the rate chargeable would be increased. A few days later, however, relief in respect of unearned incomes not exceeding £500 was announced by Mr. Lloyd George. Two concessions were embodied in the budget: where the income did not exceed £500, it was proposed to increase the allowance in respect of each child from £10 to £20, while additional relief was to be allowed in respect of repairs.

In view of a judicial decision that income left abroad for reinvestment was exempt from income-tax, a change in the law was proposed in order that such income should be legally assessable, the estimated effect of the change being an increase in the Revenue

of one million pounds in a full year. Concessions were granted at the Committee stage in respect of partnership businesses carried on abroad and also of residents abroad owning certain Government securities.

The super-tax, since its introduction in the "People's Budget" of 1909, had been chargeable on incomes exceeding £5000 at the flat rate of 6d. for every £ of the amount by which the total income exceeded £3000. Mr. Lloyd George now proposed to lower the exemption limit from £5000 to £3000, and to introduce much heavier rates of tax on a progressive basis. Henceforward, incomes above £3000 were to pay super-tax as follows: the first £2500 would be exempt, the next £500 would be charged at 5d. in the £, the next £1000 at 7d., the succeeding thousands at 9d., 11d., 13d., and 15d. in the £ respectively, the remainder (above £8000) being chargeable at the maximum rate of 1s. 4d. The progressive character of the new rates may be judged from the fact that the super-tax payable on incomes of £3500, £4000, £6000, £10,000, £20,000, £50,000, and £100,000 would be respectively equivalent to a rate of 1·7d., 2·4d., 4·9d., 8·9d., 12·5d., 14·6d., and 15·3d. for every £ of income, in addition to the ordinary income-tax payable.

Steeper progression was also to be applied to the death duty rates. In the case of estates up to £60,000 net value, there was to be no change, but from that point the scale was to steepen, and the maximum rate, that on estates exceeding one million pounds, was to be increased from 15 to 20 per cent. At the same time, relief was to be granted when property, consisting of

certain forms of wealth which were difficult to realize, passed on death twice within five years. The proposed relief varied from 50 per cent. where the second death occurred within one year, to 10 per cent. when it occurred within five years. Mr. Lloyd George proposed to abolish the settlement estate duty, by which the payment of 2 per cent. in addition to other duties, franked the estate until the settlement came to an end. He pointed out that there was no reasonable ground for continuing this anomalous distinction between property which was, and that which was not, settled. The amount of any settlement estate duty which had been paid in respect of any property was to be allowed on the first occasion on which estate duty became payable. The abolition of this duty was subsequently described by Mr. Austen Chamberlain as a breach of faith which was made worse by the fact that upon repayment of duty paid, no allowance was to be made for interest, but this criticism was met by an amendment to the section permitting the payment of simple interest at the rate of 3 per cent.

The changes in taxation were estimated to produce in the current year an additional £8,800,000. Mr. Lloyd George, after stating that this was £1,000,000 less than the sum he required, referred ominously to the amount of debt, namely, £104,000,000, which had been wiped out since the Liberal Government had been in office. Redemption at this rate was, he said, entirely without precedent in the history of any country, an assertion which paved the way for the statement that £1,000,000, and a still more substantial sum the following year, was to be taken from the

Sinking Fund, the explanation advanced being that there was no justification for imposing fresh taxation to keep up the unprecedented rate of debt repayment. In conclusion, he pointed out that when the Government came into power, direct and indirect taxation were practically equal, but there had been a gradual decrease in the proportion of indirect taxation until in this budget it was less than 40 per cent. of the total tax revenue.

The complicated and far-reaching character of the proposals, coupled with a noticeable lack of clarity in the budget speech, prevented any immediate effective criticism, which, however, was not lacking in the subsequent debates. Mr. Austen Chamberlain referred in strong terms to the rapid increase in national expenditure, and deprecated the abandonment of what he termed the old Liberal tradition of retrenchment. He suggested that the raid on the Sinking Fund and the increase of the income-tax to such a height in a time of peace were draining two of the great reservoirs to which we could have recourse in time of war ; and, while admitting that the grants to local bodies were a debt long overdue, he maintained that the proposed system would both encourage local extravagance and increase the power of the central Government at the expense of that of local bodies. He criticized also the proposed differentiation for local taxation purposes of site values, the delegation of duties to the Land Valuation Department, and the fact that the local grants were dependent upon the passage of certain contentious Bills. It was upon these three points that much of the subsequent discussion turned.

The budget met with almost unqualified approval from Labour Members, and this fact gave rise to much Conservative comment. The Government's followers, however, were by no means unanimously in favour of the proposals relating to local finance; some objected on principle to the collection of taxes for objects which had not received Parliamentary approval, while others expressed to the Chief Whip their strong objections to an autumn session which, in view of the contentious nature of the proposals, appeared to be probable. The fate of the proposals, in their existing form, was, however, finally settled on June 22nd, 1914, when the Speaker ruled, on a point of order raised by Mr. Cassel, the Conservative Member for St. Pancras West, that the part of the Finance Bill relating to grants for local purposes was outside the scope of the resolution upon which the Bill had been ordered to be brought in. The Speaker decided that the irregularity could be cured without necessitating the extreme course of withdrawing the Bill, but he considered it preferable, although not indispensable, that the part in question should be taken separately from the remainder of the Bill.

The Government, influenced partly by the restive attitude of some of the Members of their own party and by the uncompromising opposition of the Conservatives to certain parts of the scheme, announced that, in deference to the Speaker's ruling, the Finance Bill would be divided into two parts. In other words, the local taxation proposals were to be withdrawn, ostensibly for the time only, but the relinquishment of the scheme was destined to be final. The excision

of the proposals from the Bill entailed the withdrawal of the proposed temporary grants, which reduced the estimated expenditure for 1914-15 by £2,182,000. Mr. Lloyd George thereupon proposed to reduce the income-tax from 1s. 4d. to 1s. 3d., at an estimated cost of £2,577,000. After allowing for the cost of the concessions already granted, namely, relief costing £52,000 in respect of income-tax on unearned incomes not exceeding £500, and, in the case of the death duties, the allowance costing £30,000 in respect of the surviving party to a marriage, the estimated revenue was reduced by £2,659,000. On the other hand, the Customs revenue estimates were at the same time increased by £150,000 and the Excise by £200,000. The net result of all these changes was that the estimated surplus was reduced from £252,000 to £125,000.

The abandonment of the temporary grants was condemned by many speakers. One Member maintained that the Government had surrendered to a few of its more influential supporters who were, he suggested, actuated by resentment against the additional taxation involved, rather than by disapproval of unconstitutional procedure. Mr. Lloyd George was also denounced for failing to replace the million pounds which he had withdrawn from the Sinking Fund, while reducing the income-tax, which, since the budget speech, had, in cases of deduction at the source, been collected at the increased rate.

The Finance Bill, in its new form, made slow progress, and on July 7th, the Prime Minister introduced a guillotine resolution allotting four more days to the Committee stage, two days to the Report stage,

and one to the third reading. He maintained that, under the Provisional Collection of Taxes Act of 1913, it was necessary that the Finance Bill should become law by August 4th, although it subsequently appeared that legal opinion was not unanimous on this point. Of the sixteen intervening days available, six and a half were required under Standing Orders for Supply, thus leaving only nine and a half days for the Finance Bill and all other business ; and he suggested that the ten and a half days which had already been devoted to the budget, together with the allotted seven days, should be sufficient for adequate discussion. After two days' debate, during which many amendments were moved and lost, the resolution was carried by 265 to 175 votes, thus creating a noteworthy—as some thought, a dangerous—precedent, for this was the first occasion of a guillotine resolution on a Finance Bill.

The Bill passed the Committee and Report stages according to programme, after repeated applications of the guillotine. The Government accepted minor amendments, among which may be mentioned those providing for the allowance of simple interest in respect of settlement estate duty payments, and for the removal of anomalies of the estate duty scale. Mention has previously been made of the concessions in respect of partnership businesses carried on abroad, and of residents abroad owning certain Government securities.

In the course of the debate on July 23rd, the day allotted for the third reading, Mr. Austen Chamberlain commented on the difference between the Bill in its final form, when it might be truly described as a

Finance Bill, and the form in which it was originally introduced. Then it consisted largely of a far-reaching scheme of reorganization of central and local finance, but that part, he maintained, had entirely disappeared, if not entirely into the land of forgetfulness, at least into a dim and very precarious future. Replying to this, Mr. Lloyd George said that there had been no change in the original principle of the budget, which was to obtain increased revenue, mainly to meet the increased cost of Imperial defence and the cost of large new grants to local authorities next year. These grants had been postponed, he affirmed, only until the following April 1st, which was the date originally intended, and the only alteration was that the temporary grants had been abandoned. He concluded with the hope that the enormous and increasing expenditure on armaments throughout Europe, with corresponding increases in our own expenditure, would soon be remedied by the re-establishment of sanity amongst the people of the world. At eleven o'clock, the prescribed hour, the motion that "the Bill be now read the third time" was put, and agreed to without a division. The passage of the Bill through the House of Lords was expedited by the suspension of standing orders, and the royal assent was signified on July 31st, 1914.

For the first time, the naval vote had exceeded £50,000,000, and the total revenue had passed the two hundred million mark. These figures were significant, but the outstanding feature of the budget was the proposals relating to local finance, which would not only have fundamentally changed the basis of local taxation, but would have considerably

modified the relations between local and central finance. The proposed changes in rating valuation and assessment did not meet with universal approval, but there was less difference of opinion with regard to the need for revision of the existing system of grants in aid, which were allocated and distributed on varying, and sometimes antagonistic, conditions and principles.[1] The budget proposals, however, would have affected only a portion of these grants, the extent of which was, and is, not generally realized. Mr. Lloyd George's scheme, apart from certain debatable features, was admittedly a logical and statesmanlike plan, and it is to be regretted that the controversial character of one or two of the proposals led to the abandonment of the whole project. The acceptance by Parliament of the scheme, or even of a part of it, might have paved the way for a satisfactory and final solution of the problem of Exchequer grants, but fate decreed otherwise. Within a few weeks of the withdrawal of the proposals, all ideas of reform vanished in the turmoil of war.

MR. LLOYD GEORGE'S SEVENTH BUDGET, 1914-15 (REVISED).

November 17, 1914.

WAR had come. On July 23rd, 1914, nearly a month after the assassination at Serajevo of the Archduke

[1] Cf. *Grants in Aid* (1920 edition), Sidney Webb. Mr. Webb emphasizes the importance of these grants regarded as "a permanent and, if properly arranged, intrinsically valuable part of our constitutional machinery." For a different view, see the First Interim Report of the Geddes Committee, Cmd. 1581, 1922, pp. 103-106.

Francis Ferdinand, Austria issued an ultimatum to Servia. Events then happened with startling rapidity. Nation after nation was embroiled. On August 4th, on the violation of Belgian neutrality, Great Britain declared war on Germany. As the inevitable result of our entry into the war, there was an enormous increase in public expenditure, and the part that finance was to play soon became apparent. On August 8th, the Government obtained a vote of credit for £100,000,000, and on the 28th, the Treasury were granted power by the War Loan Act, 1914, to borrow as they thought fit, on the security of the Consolidated Fund, for the purpose of raising Supply. The Government found it necessary to obtain a further vote of credit for £225,000,000 on November 17th, the date on which Mr. Lloyd George introduced the first war budget.

The Chancellor's revised estimate of expenditure on the basis of the pre-war estimates was £206,924,000, and the estimated additional expenditure due to the war was £328,443,000, which was largely accounted for by the extraordinary increase in our military forces. There were at the time at least two million men under arms, and it was confidently expected that within the next few months the number would be increased by a further million. Owing to war conditions, the revenue on the existing basis was expected to amount to only £195,796,000, and Mr. Lloyd George was therefore under the necessity of finding an additional £339,571,000 before March 31st. This problem raised the question which all war-time Chancellors have to face: how much should be supplied by additional taxation and how much by

loans? The Crimean War, he said, had cost us £67,500,000, of which taxes provided £35,500,000, while the same source had supplied £391,000,000 towards our total expenditure of £831,000,000 on the Revolutionary and Napoleonic Wars. Mr. Lloyd George pointed out that at one stage of these wars, taxation amounted to between one-third and one-fourth of the national income, and that if the same proportion were again adopted, no loans would be required.

As it was impossible to foretell the duration of the present war, he considered it essential to err on the safe side and to prepare for a lengthy struggle. Proceeding to state the case for increased taxation, he said that Germany and Austria were deprived of many of their raw materials and foodstuffs, and their exports had disappeared, while a considerable portion of France was in the hands of the enemy. But we were more fortunately placed; our overseas trade had suffered scarcely an interruption, and although we had lost some Continental customers, the markets of the rest of the world were still open to us, while the competition of Continental traders had disappeared. At the conclusion of the war, he continued, there would be a boom period of four or five years, when trade and industry would be artificially stimulated, and at the end of which we should be faced with a serious economic situation. Everything pointed to the need for an immediate and considerable increase in taxation, which would strengthen our credit and—on the whole—facilitate the flotation of a loan. It is easier to raise taxes in a period of war, he said, for "it is a time when men know that they are expected

to give up comforts, possessions, health, limb, life—all that the State requires in order to carry it through its hour of trial. . . . I am perfectly certain that I should be committing an unpardonable blunder against the highest interests of this country if as Chancellor of the Exchequer, however disagreeable the task might be, I did not take this, the earliest opportunity for submitting proposals that would enable people to contribute something towards carrying on the war in which the honour and life of their country is so deeply involved."

He maintained that it would be not only inexpedient but unjust if the financial burden of a great war, in which the nation was fighting for its very existence, were borne solely by one or two sections of the community, and the budget proposals were intended to ensure that the burden would be shared by all classes. He proposed, first of all, to double the income-tax and the super-tax, but the increase was to be applicable in respect of only the last four months of the year; in other words, the effective rates for the year were to be one-third higher than those prescribed in the Finance Act, 1914. The higher rate was imposed for only a third of the year, said Mr. Lloyd George, because taxpayers, having already made their arrangements for their scale of expenditure, would find it difficult to adapt themselves to the new conditions, and, furthermore, during the first year, there would be great hardship in respect of those whose incomes had been swept away by the war.

Mr. Lloyd George's proposal to double the income-tax was reminiscent of the policy pursued at the time of the Crimean War by Mr. Gladstone, who, in the

budget of March, 1854, in effect doubled the rate (from 7d. to 1s. 2d.) for the first six months of the financial year, but in his second budget in May, 1854, made the double rate payable also in respect of the second half of the year, and proposed to continue the double rate for the duration of the war.

After referring to some of the difficulties connected with indirect taxation, the Chancellor stated that he had carefully considered all other means of raising money from the classes who did not pay income-tax. A tax upon wages, he said, would undoubtedly mean that a man would be paying upon what he actually received, but the disadvantages of such a tax, for the time being at least, were insuperable. Employers could make deductions at a flat rate only, and this would entail difficulties in connection with abatements and allowances, while casual work, outworkers, piece-workers, half-timers, and the thousand and one other complications of our industrial system would, he thought, render the scheme unworkable. In addition to these drawbacks, there was the further and more difficult problem of those persons, including small shopkeepers, who were neither insured nor in the employed class, and the tax yield in these cases would be entirely incommensurate with the difficulties and expense of collection. The Government therefore decided, with some reluctance, that additional revenue must be obtained by means of indirect taxes on commodities. The usual suggestions of fancy taxes, many irritating and all unproductive, had been received and rejected. He was consequently forced, he said, to fall back upon the very limited list of commodities which, as past experience had shown,

were alone capable of yielding any considerable revenue.

He dealt first with beer, which, considering the amount of proof spirit it contained, was taxed at a very low rate compared with other alcoholic beverages. A barrel of beer brewed at the standard gravity would contain, after fermentation, about three and a quarter gallons of proof spirit, the duty on which, charged as spirit, would amount to £2 7s. 11d., whereas the actual beer duty chargeable would be only 7s. 9d. The slight additions which had previously been made to the beer duty had been so small that the only practicable method of shifting them to the consumer had been by means of a reduction in gravities. The increase now to be made must, he said, be one which could be passed on to the consumer, for only thus could sufficient revenue be obtained, and it was only right that the consumer, and not the brewer or publican, should bear the burden. As most beer was sold in the form of half-pints, he proposed to work on a basis of a halfpenny a half-pint, which was equivalent to 24s. a barrel, and, in order to allow the brewer and the publican a fair margin for waste, for bad debts, for interest, and for a fair profit on turnover, the duty was to be raised by 17s. 3d. per standard barrel. This margin depended on the gravity, owing to the system, which continued until 1923, of assessing the beer duty solely on the standard barrel. On the strongest beers, the margin was admittedly insufficient, but on weaker beers it was more than adequate.

In view of the increase in the duty, the Chancellor proposed to grant two concessions to the brewers. Firstly, they were to be allowed to postpone payment

of duty until the fifteenth day of the second, instead of the first, month after that in which the duty was charged; this additional credit proved to be of considerable assistance to the trade, particularly during the transitional period. The second concession was permission to warehouse on drawback beer intended for export, but, owing to prevailing conditions, the privilege was not taken advantage of for some considerable time. The increase in the beer duty, allowing for the additional month's credit and for a reduction of 35 per cent. in consumption, was estimated at £2,500,000 for the current year, and £17,600,000 for 1915-16. A concession, costing £450,000 in the current, and £550,000 in the ensuing year, was to be granted to retailers of intoxicating liquor. Mr. Lloyd George proposed that one-fifteenth of the licence duty, up to a maximum of one-fourth, should be allowed in respect of each hour of curtailment under the Intoxicating Liquor (Temporary Restriction) Act, 1914, and a flat-rate reduction of two-fifteenths where hours were curtailed under the Temperance (Scotland) Act, 1913.

Turning to other possible sources of increased revenue, he said he did not propose to increase the spirit duty, as the result would probably be a reduced yield, and he considered an increase in the wine duty inadvisable, not only for diplomatic reasons but also because it would not be very productive. With the avowed aim of getting at what he termed the elusive teetotaller, Mr. Lloyd George proposed to increase the tea duty from 5d. to 8d. per pound; he did so, he said, with some regret, but he could find no other way of taxing every class of the community. A tax on

soda-water would simply be an additional tax on whisky drinkers, while it was impossible to tax sugar, he maintained, owing to the system of Government control. It is interesting to note that within a year the sugar duty was quintupled, and within two years a duty on table waters was imposed !

The sinking fund was the next matter to be dealt with. The fixed charge, under the Finance Act, 1914, was £23,500,000, of which sum £16,741,000 would normally have been devoted to interest and management charges, and the remainder to the repayment of capital. Considerable sums had, however, been borrowed for war purposes, so that interest and management charges would amount to £17,580,000, leaving only £5,920,000 for capital repayment. Mr. Lloyd George said that it was impossible, or at least very undesirable, to suspend the payment of the whole of the £5,920,000; £1,000,000 was specially earmarked for the redemption of the final instalment of Allotment Bonds, and against the suspension of the Terminable Annuities he advanced two good reasons: firstly, over three-fourths of the money had already been issued, and, secondly, the suspension of the remainder would remove a source from which the National Debt Commissioners obtained money to relend to the Exchequer for financing land purchase, local loans and telephone extension. The latter reason appeared to preclude the suspension of the capital portions of annuities under naval loans, military works, Post Office and other buildings. There remained, therefore, only £2,750,000 of the new sinking fund, and this was to be applied to payment of interest on the new debt, thus making the amount

issued in respect of fixed debt charge £20,750,000 instead of £23,500,000 as provided for in the previous budget.

The Chancellor was faced with a deficiency of £339,571,000, towards which new taxation would contribute £15,500,000, and the partial suspension of the sinking fund £2,750,000, thus leaving a net deficiency of £321,321,000, which would have to be met by borrowing. At the moment, there were Treasury Bills outstanding to the amount of £91,000,000, of which £1,000,000 was issued before the outbreak of war. More than a third of the Bills would mature before March 31st, 1915, and assuming that they would be renewed on maturity, an additional sum of £230,321,000 would be required to carry on up to the end of the financial year. After some consideration, however, the Government decided to borrow £350,000,000, which they deemed would enable them to keep going until the following July. As to the exact form the loan should take, opinions differed, although it appeared to be the universal opinion that the loan could not be floated at a lower rate of interest than 4 per cent. Mr. Lloyd George was himself, apparently, in favour of a loan issued at par, which had much to be said in its favour, but financial interests viewed it with disfavour because, in the event of the war being prolonged, the investor had to risk serious capital depreciation. Financiers were overwhelmingly in favour of a loan at $3\frac{1}{2}$ per cent. issued below par and redeemable at a comparatively early date, and the Government, believing that, under the circumstances, such a method would in the long run prove advantageous, decided to adopt it.

Mr. Lloyd George announced that the loan was to bear $3\frac{1}{2}$ per cent. interest, to be issued at 95, and to be redeemable at par on March 1st, 1928, or, at the Government's option, on or after March 1st, 1925. On the assumption that the loan would be repaid on March 1st, 1928, these terms would yield the investor exactly 4 per cent. The Chancellor stated that the Bank of England had given an undertaking to lend on War Loan, taken at the issue price, without margin, at 1 per cent. under the current bank rate. This privilege not only increased the value of the security, but mitigated some of the difficulties in the money market resulting from the raising of such a large sum, thus contributing materially to the success of the loan.

In the concluding sentences of the budget speech, an appeal was made—on diverse grounds—for a whole-hearted support of the loan. "It is a loan," said Mr. Lloyd George, "to help the country to fight the battle for its existence—to fight a battle which lends value to every other security which we have got. Victory means value, defeat means depreciation. It is an excellent investment, because the credit of Great Britain is still the best in the market, and after this war it will be a better investment than ever. There will be no more loose and malevolent talk about the decay and downfall of the British Empire. Never have her sons displayed so great an eagerness to rally to her standard in the hour of her danger. The vast majority of her citizens cannot, owing to age, or infirmity, or physical disability, share the toils and dangers of those who are risking their lives—those valiant fellow-countrymen of ours—in the field, but

they can display the same readiness to render all the help in their power to their country in her need. Then not only will the Empire win a great triumph in this trouble, but, what is more, the spirit now shown by her people of all ranks and races will be a guarantee that the victories won by her in the future will surpass even the great achievements recorded among the glories of her past."

On budget night, and indeed during most of the subsequent discussion, criticism was very indulgent. The general attitude towards the Chancellor and his budget was explained by Mr. Austen Chamberlain, who said: "We all of us are anxious to make his difficult path as smooth as we can, and in any observations which it may be necessary in the course of these discussions for us to offer, to say as little as possible that is embarrassing to him and nothing that is harmful to our country." Beyond tamely criticizing the increases in the beer and tea duties, and suggesting that increased taxation ought perhaps to have been either imposed at an early stage of the war or postponed until the normal budget, Mr. Chamberlain appeared to approve of most of the proposals. At a later stage, he explained that his criticism was somewhat limited owing to the fact that almost immediately after the outbreak of war, he had accepted the invitation of the Government to assist them in dealing with financial measures and schemes. For obvious reasons, he had not helped with the actual framing of the budget, but after the main proposals had been settled, he co-operated with the Chancellor in an endeavour to make the increased burden as light as possible. Owing to a difference of opinion

with regard to the increase in the beer duty, for the results of which he now declined to assume responsibility, Mr. Chamberlain felt obliged, a few days later, to resign—as he termed it—from the Cabinet of which he was not a member.

The Government proposals regarding incomes diminished by the war, which had been foreshadowed in the budget speech, were announced two days later by Sir John Simon. When the current year's income, owing to circumstances attributable directly or indirectly to the war, was less than the average of the preceding three years, income-tax was to be assessed on the average of the current and the two preceding years in those cases where the tax was normally assessable on the first-mentioned average. In the case of super-tax, relief was to be granted only when the income of the current year had been reduced by at least one-third of the existing assessment, in which case the tax would be assessed in the normal way, but the taxpayer would be required to pay in the current year in respect only of the income which he actually received; he would be allowed to postpone payment of the balance until January 1st, 1916. The income-tax concession obviously differed from that in the case of super-tax. The former meant a definite reduction in the amount of tax payable; the latter was merely permission to postpone payment, and, in certain cases, the advantage was illusory. During the subsequent discussions, Sir Frederick Low suggested that, as a further relief, income-tax should temporarily be payable in two instalments. There was much to be said in favour of the idea, which, incidentally, was adopted as a permanent measure

the following year, but it was rejected by the Government on the grounds that administrative expenses would be increased and the current year's revenue would be considerably diminished. At the Committee stage, a concession was granted to officers and men serving in the naval or military forces, and to men engaged in any work abroad of the British Red Cross Society or similar bodies. In these cases, income-tax and super-tax were to be assessed not on past averages but only on the income actually earned in the financial year.

The proposal which aroused the keenest criticism was the increase in the beer duty. "The Trade" submitted to the Chancellor detailed figures purporting to show the difficulties and bankruptcies which would result owing to the insufficiency of the margin between the increase in the duty and that in the retail price, and in the House the brewers' point of view was expressed, at some length, by Sir George Younger and Mr. Austen Chamberlain. Indulgently remarking that the Trade "had not protested in the slightest degree against the imposition on their trade of a very heavy duty" but had only protested against details, Mr. Lloyd George maintained that 17s. 3d. was a perfectly fair figure as a standard, but as, with an estimated decrease in consumption of 35 per cent., there might be hardship during the transitional period, he proposed that up to March 31st, 1916, there should be a rebate of two shillings a standard barrel, and a rebate of one snilling during the next financial year, after which the full duty of twenty-five shillings per standard barrel would become effective. The concession was regarded by the Trade as being totally

insufficient to prevent serious hardship, but their worst fears were not realized. On the contrary, consumption, which at first declined considerably, soon showed signs of improvement, and the brewing industry was destined to experience not a period of depression but several years of unparalleled prosperity.

On budget night, a resolution had been passed empowering the Treasury to raise, under the War Loan Act, 1914, any amount which in their opinion was required for carrying on the war, notwithstanding that the amount raised might exceed the sums granted in Committee of Supply. This provision was intended to cover short loans obtained in anticipation of revenue or instalments of the War Loan. Subsequently, the unlimited powers of borrowing given to the Treasury by the resolution were severely criticized by Sir Frederick Banbury, and an amendment was accepted imposing a limit of £100,000,000 on borrowing in excess of supply.

The Finance Bill passed through its final stages with remarkable rapidity. It reached the report stage in the House of Commons on November 25th, and within two days the Bill became the Finance Act, 1914 (Session 2).

Mr. Lloyd George, in this budget, proposed to meet the additional war expenditure by obtaining £321,000,000 from loans, and from additional taxation only £15½ millions in the current year, most of which was required to counterbalance a shortage of revenue. His action does not at first sight appear to correspond with the vigorous language he used in opening his budget, and he has been severely criticized by some writers for obtaining such a small proportion from

taxes, but it is necessary to remember that there remained only a few months for the new rates to swell the current year's revenue, that the new proposals could obviously not bear full fruit immediately, and that in the full year of 1915-16 the proposed increases were estimated to produce the substantial sum of £65 millions, an increase of approximately 40 per cent. on the total pre-war tax revenue.

Mr. Lloyd George had to consider not only the financial, but also the political, factors in the situation; his difficulties were great and the conditions with which he was faced were abnormal. The industrial and commercial outlook was uncertain. Credit had not recovered from the shock of war, the Stock Exchange was still closed and the moratorium had only just ceased, yet he had to float a loan for a hitherto undreamt-of amount, and he dare not risk failure or even partial success. In addition, there had in recent years been heavy increases of taxation, mainly of direct taxation, and opinions still differed as to the desirability, under the circumstances, of any further considerable addition to the tax burden. It may fairly be urged that the national finances could not be placed on a satisfactory war basis at a single step, and that on the whole, therefore, Mr. Lloyd George was justified in refraining on this occasion from any such attempt.

MR. LLOYD GEORGE'S EIGHTH BUDGET, 1915-16.

May 4th, 1915.

THE second war budget was not introduced until May 4th, 1915. The introduction of a budget so late in the financial year, which almost invariably signifies absence of fresh taxation, caused little surprise, for it was an open secret that the Government had decided to postpone the real budget until later in the year. It was thought at the time that the next two or three months of military operations might be decisive, and Mr. Lloyd George declared in his opening sentences that owing to the impossibility of foretelling accurately the duration of hostilities, it was an unsuitable moment for attempting to reorganize our tax system on a war basis. His failure to impose substantially increased taxation at this stage, which would have profoundly altered our whole war finance, has met with almost universal condemnation, and this lends peculiar interest to the explanation he offered the House.

" All experts," he said, " will give you very varied estimates as to the probable duration of the war, but with all respect to their experience and powers of prevision, the best of them cannot possibly tell at the present moment. The operations of the coming summer alone will enable us to form a dependable opinion—not as to the ultimate issue of the war, because that is not in doubt—but as to its duration, and that is the question which concerns a Finance Minister when he is framing proposals for submission to the House of Commons with a view to meeting

the expenditure of the year. This is, therefore, not a suitable moment to attempt a forecast of the probable expenditure upon the war or to submit proposals for that purpose. Proposals which might be appropriate to a short campaign would be inadequate for a prolonged war, or *vice versa*, and I frankly admit I should not have chosen this opportunity for reviewing the finance of the year and making proposals to Parliament had it not been for the compulsory obligations of the Provisional Collection of Taxes Act." He went on to point out that a review of the year's finances would serve one useful purpose in that it would help the nation more fully to realize the dimensions of the task before them.

The war had cost us, up to March 31st, approximately £360,000,000, which was considerably more than the November estimate, but if allowance were made for sums spent on the purchase for re-sale of wheat, meat, sugar, and other commodities, and for £52,000,000 lent to the Dominions and our Allies, the net expenditure was below the estimate. The cost was, however, increasing very rapidly; for the first four months, it had amounted to £102,000,000, but for the next four months it was no less than £177,000,000, and, owing to the rapid increase in our military forces, expenditure was increasing at an appalling rate. As the net result of the operations in 1914-15 the total national indebtedness had been increased by £458,000,000, and stood on March 31st, 1915, at the unprecedented amount of £1,165,802,000, a figure which would have been still higher but for the fact that tax and miscellaneous revenue had exceeded the estimates.

The income-tax and super-tax had been extraordinarily buoyant, and had together exceeded the November estimate by nearly £8,000,000. Part of this, however, was due to the fact that the taxpayers —particularly the super-tax-payers—had paid up with unusual promptitude, but the gain from this source in the one year obviously meant a loss to the next. The Customs and Excise revenue had also increased beyond anticipation and exceeded the estimate by £7,000,000, three millions of which were due to forestalments, mainly of spirits, tea, and tobacco, while most of the remainder was attributable to increased consumption of spirits and tobacco, and to an unexpected recovery in the consumption of beer. The yield from stamps was almost identical with the estimate, but the estate duties showed a surplus of more than half a million.

Turning his attention to the current year and taking the unusual course of dealing first with revenue, Mr. Lloyd George stated that the estimated receipts from Customs and Excise were £95,200,000, or over fourteen millions more than the actual receipts of the preceding year. The sugar and tobacco estimates were down, but beer was expected to yield £32,000,000, an increase of £16,120,000, and wine an increase of £1,346,000, while an additional £372,000 was expected from tea. The increased estimate from the tea duty and most of the increase from beer were due to the additions to those duties which had been imposed the previous November and had thus been applicable for only a part of the previous financial year. The anticipated expansion of the yield from wine, and £1,600,000 of the additional revenue from beer, were

attributable to the proposed increases which had been announced a few days previously as part of the Government scheme to deal with the drink problem.

Certain restrictions had been imposed on the drink trade soon after the outbreak of war, but their inadequacy was gradually realized. The nature of the military operations made more and more evident the importance of an ever-increasing supply of munitions, and attempts were made vastly to increase the output, but the speeding-up process did not proceed as rapidly as was desired owing, it was maintained, to the abuse of drink by certain sections of the working classes. The Government, realizing the importance of the problem, considered various suggested remedies. Prohibition of the sale of spirits was rejected as being apparently unfair to certain areas and consequently likely to arouse bitter antagonism, while total prohibition was regarded as being, for the time at least, outside the realm of practical politics. It was finally decided to adopt a scheme based on two principles, namely, complete Government control in certain defined areas coupled with heavier taxation of alcoholic liquors, and details of the proposals were submitted by Mr. Lloyd George to the House of Commons on April 29th. The introduction of tax proposals five days before the budget was unusual and gave rise to some comment. The duty on spirits was to be doubled, the wine duty quadrupled, the surtax on sparkling wines sextupled, while heavy surtaxes, varying from 12s. to 36s. per barrel according to original gravity, were to be imposed on beers presumed to contain more than 7 per cent. of proof spirit.

The Government had prepared their proposals apparently without any consultation with the other parties, and did not presumably expect them to pass unamended, but the opposition offered to the scheme, particularly by the Irish Nationalists, was undoubtedly more violent than had been anticipated. The following day, in an attempt to rally public opinion in favour of the proposals, the Government published a White Paper containing evidence of excessive drinking in certain districts, and purporting to show the causal relation between this evil and the delay in the manufacture and transport of war materials. The increased duties were incorporated in the budget, but were dealt with very briefly by Mr. Lloyd George in his Budget speech. They were, however, the only important changes in taxation, and it was against them that most of the criticism on budget night was directed.

The total revenue from the Inland Revenue Department was expected to amount in the current year to £140,500,000, an increase of £32,170,000 over the Exchequer receipts for the previous year; stamps would, it was anticipated, show a decline of more than a million pounds, but the yield from the income-tax and super-tax, with a continuance of the double rates imposed in the previous budget and effective for only a third of the previous financial year, was estimated to show an increase of over £33 millions. No further increases in the rates were proposed, but there were to be certain slight amendments of the law. The existing methods of assessment were unfair to the British life assurance companies as compared with foreign companies, and were unfair to the life

assurance companies as against the composite companies, and in accordance with a pledge given the previous year, the Government proposed to remedy the matter. A limit was also to be placed on the amount of relief granted in respect of life assurance policies, owing to the growing practice, encouraged by the high rates of tax and fostered by the companies, of avoiding the payment of income-tax by means of endowment policies for short periods with heavy premiums.

Turning to the non-tax revenue, the Chancellor stated that the Post Office services' estimate showed an increase of £750,000, which he attributed to an "increase in the number of letters which are posted in connection with the war," an explanation which, incidentally, seems scarcely to agree with the published estimates where the increase is allocated amongst the postal service (£200,000), the telegraph service (£100,000), and the telephone service (£450,000). Miscellaneous revenue showed a fall of over £4 millions, which was largely accounted for by the unusually large profits arising in the previous year from the great demand for silver coinage.

Expenditure, as we have seen, was increasing by leaps and bounds, but the daily cost of the war was, at that time, small compared with the immense figures reached in the later stages of the struggle. Owing to the impossibility of foretelling with any degree of certainty the duration of the war, Mr. Lloyd George submitted alternative estimates, the first being based on the supposition that hostilities would last for a further five months only, while the second assumed that they would continue throughout the

whole of the financial year. In this budget was commenced the practice of having only token votes—of £15,000 and £17,000—for the Army and Navy, the actual expenditure being covered by votes of credit, and the difference between the two estimates submitted by the Chancellor arose from differences in the estimated amounts of these votes together with alternative estimates of the debt charge. The votes of credit for six months of war were estimated at £638,000,000, and for the full year £978,000,000. The former included £400,000,000 for the Army, £120,000,000 for the Navy, and £100,000,000 for advances to Allies and to the Dominions; in the latter, the Army accounted for £600,000,000, the Navy for £146,000,000, and advances to Allies and Dominions amounted to £200,000,000.

As the war was being largely financed by loans, the national debt charge would obviously be dependent upon the duration of the war. In the case of the national debt services outside the fixed charge, the lower estimate was £24,750,000 and the higher £30,726,000. As it would be illogical to continue the sinking fund while heavy loans were being negotiated, a policy not unknown in our fiscal history, the fixed charge, which would otherwise of course have remained unchanged, was to be reduced by the suspension of the new sinking fund. The total estimated expenditure, on the assumption that the war would end by September, was £790,000,000, or £1,136,000,000 if the war continued throughout the financial year. After deducting revenue on the existing basis of taxation, £3,780,000 in respect of the suspension of the new sinking fund, and

£3,100,000 from additional taxation, the Chancellor was faced with a deficit of £516,346,000, or £862,322,000 if the war were prolonged.

Mr. Lloyd George mentioned three possible methods of meeting the deficiency. Dilution of the currency was, he said, an easy and tempting method, and possible perhaps in a country with no foreign trade, but it was inexpedient and unjust in that it was simply an indirect and unfair method of levying taxes on the incomes of the people. He made no reference to the fact that Treasury Notes to the amount of considerably over £40 millions were outstanding, nor to the question—which gave rise to much controversy and was necessarily difficult of solution—as to the precise relation between these notes and the rise in prices. The second method, which had been adopted by Germany and was eventually adopted by us, was the sale of securities or the flotation of loans in foreign markets, but the assistance to be obtained from this source was strictly limited. The third method, which in the Chancellor's opinion was the only straightforward and reliable course to pursue, was to depend primarily on the savings of the country.

A further problem arose in connection with the huge increase in our imports, accompanied by a decrease in exports. In the last year before the war, imports had exceeded exports by £134,000,000, but the apparent deficiency was, as everyone knows, more than counterbalanced by what are described as "invisible exports," including the earnings of our mercantile marine, services performed for foreign customers by our banking, insurance and other firms, together with the interest on £4,000,000,000 of

British capital invested abroad, all of which in 1913 amounted probably to about £350,000,000, thus leaving a net balance in our favour of £220,000,000, which represented fresh investments abroad. Now, however, imports had increased, not merely owing to purchases of war material, but also because, with over four million men withdrawn from industry, half of whom were in the fighting forces and the rest making munitions, we had to buy goods which normally would have been produced at home. Furthermore, the Government were financing not only their own purchases but also most of the Allies' purchases in foreign markets, so that the net adverse balance, after allowance had been made for invisible exports, was expected to amount to £400,000,000.

Mr. Lloyd George did not say how he proposed to deal with this adverse balance, but he suggested that the Allies must decide on the rôle that Great Britain was to play. She could keep command of the seas, she could maintain a vast army consisting, as in the Continental countries, of almost the whole of the male population, or she could, as she did during the Napoleonic Wars, assist the Allies with supplies of money and munitions. "Britain can do the first," he said, "she can do the third, but she can only do the second within limits, if she is to do the first and the last." The national income, which before the war was about £2,400,000,000, had now, he affirmed, increased, for hundreds of millions of borrowed money were being spent by the Government, men were working overtime, wage rates had risen, while profits had increased and in some cases were far above the normal level. The normal savings of this country

were between £300,000,000 and £400,000,000, but with the increased income and a lower standard of living, the national savings, he considered, ought during the war to be doubled. It was vital, he said, if we were to take our part not merely in financing our own share but in helping our Allies to finance theirs, that the national savings should be increased.

Towards the end of the budget speech, the Chancellor alluded to the possibility in the future of a tax on exceptional profits arising out of the war, and suggested that such a tax—which was introduced a few months later by his successor—would be justifiable if the war lasted two or three years. The question of a general increase in taxation was deferred until the next budget. If the war were prolonged, he said, in what he termed a warning to the House, it would be their duty to consider the form and the amount of the additional contribution to be made by the community towards the expense of a war, success in which was vital to the very existence of the Empire.

Mr. Austen Chamberlain, having commended the Chancellor for avoiding smooth optimism and for emphasizing the magnitude of the task before the nation, maintained that the war would be won by hard fighting and by nothing else, and that no strengthening of our financial position would counterbalance weakness in the field. But, he said, " I think I am entitled to remind the Committee, though I do not want to provoke old controversies, that not once or twice, but year after year for the last five or six years, I have warned this House of the gigantic burdens that a great war would throw upon us, and

have lamented the whittling down or the using up of the resources which ought to be available to enable us to meet those burdens. I do not make that statement now in order to revive old controversies, nor to pose as a prophet who finds some happy prophecy in course of being fulfilled. I do it to support the Chancellor of the Exchequer's statement that all of us, public authority and private individual, must exercise the utmost economy." Proceeding to criticize the liquor taxation proposals, he protested that attention had been focussed solely on the effects of alcohol, and that other important factors had been ignored. He suggested that if he had a bad toothache, and went to have the tooth extracted, the dentist would not blister him all over the body from the sole of his foot to the crown of his head, yet this was analogous to the Chancellor's proposals for dealing with the problem. The evil was confined to certain sections of workmen and to certain localities, yet penal and crushing taxes were to be imposed, penalising consumers and traders indiscriminately. He considered the taxes were an excrescence on the scheme of control, inserted hastily at the last minute. "I think," he continued, "that the Chancellor himself must see that he has gone in these taxes far in advance of public opinion, that he has made suggestions which his argumentative case does not enable him to support, and that he will have to revise profoundly the taxing proposals which he has made. . . . I cannot see for myself how it is possible for us in this House, with every desire to aid and not to embarrass these proposals, to do otherwise than actively oppose them, if he continues to press them upon the House."

Mr. Lloyd George, instead of waiting for the debate to develop, rose at once, explaining that he did so in order to prevent anything being said which might make a settlement impossible. He informed the House that he had met the leading brewers and distillers during the preceding two or three weeks, and although the spirit shown by them had been most admirable, he had been unable to come to any arrangement, but there was to be a further meeting the following day. He declared that he would not allow personal pride to stand for one moment in the way of a satisfactory settlement, and, remarking on the responsibility resting on the Opposition, appealed to all sections to assist the Government in dealing with the problem and to give the latter the required powers of control in the munitions areas, even if the taxation proposals were temporarily postponed for negotiation.

Mr. Bonar Law then rose, and, after apologizing for the apparent monopolizing of the debate by front benchers, made a conciliatory speech in which he admitted the existence of certain of the alleged evils, but maintained that the remedy must not be out of proportion to the evil, and said that he was absolutely convinced that if the proposed taxes were proceeded with unchanged, there would be an agitation precisely similar to that which arose in connection with the Licensing Bill of 1908. Mr. John Redmond, maintaining the attitude adopted by him on the introduction of the scheme, declared that he would oppose root and branch the taxation part of the proposals which, while being no remedy for the evil, meant unjust differentiation against Ireland, and would

destroy one of her few remaining industries. The Labour Party was also antagonistic. Mr. Arthur Henderson averred that the White Paper was unjust and untrue, that the proposals were unnecessarily controversial, and that in tackling such a problem in war-time, the Government, while observing the spirit of the party truce which was supposed to exist, ought to have formulated such a scheme as would have met with the support of all parties. When the debate ended, scarcely a voice had been heard in support of the taxation part of the scheme. The liquor taxation proposals were dead.

Seven days later, the Immature Spirits (Restriction) Bill was introduced. Sir John Simon, the Attorney-General, explained that since the increased liquor duties had been proposed, prolonged discussions with the Trade had taken place for the purpose of seeing whether the restrictions necessary in the national interests could be secured without heavy additional taxation, and this Bill was the result. He suggested that a large part of the mischief with which they had to contend was due to the consumption of raw, new spirits, and this Bill was designed to prevent the sale of young and immature spirits. The delivery of spirits which had been warehoused for less than three years was to be permitted only under certain specified conditions and on the payment of a surtax of one shilling or one shilling and sixpence per proof gallon according to the age of the spirits. These new surtaxes were to be incorporated in the budget, and the whole of the additional taxation on liquor which had been proposed a few days earlier was to be dropped.

The following day, the debate on the budget was resumed, and was again focussed on the drink question. The newly proposed restrictions on immature spirits met with considerable opposition, particularly on account of their suggested effect on certain distilleries, and Mr. Lloyd George, after referring to the obstacles which he had met in his attempts to deal with the drink problem, said: "If the interests of two or three, or even four persons, are to interfere with what is vital at the present moment, all I can say is the nation is not in a fit condition to carry through a great war. . . . It is a pitiful spectacle for the House of Commons; it is really pitiable that, every time we attempt to deal with the situation, there is always some difficulty with some interest or another." After Sir Edward Carson had stated the case from the distillers' point of view, and Mr. Bonar Law, apparently in agreement therewith, had expressed regret that there should have been any wrangling, as he termed it, Mr. Lloyd George promised that further consideration should be given to the question of compensation, and the debate soon turned to wider financial matters.

In a powerful speech, Mr. Philip Snowden remarked that "Nobody . . . could have listened to this debate . . . and imagined that we are now faced with the gravest financial problem with which this or any other country can be faced. The debate . . . was concerned with the financial interests of one or two very rich distillers, and since the Chancellor of the Exchequer gave the assurance that the interests of those distilleries would be protected, the interest which the Opposition had in the budget appears to have evaporated."

He deprecated the fact that no proposals had been made for meeting the enormous deficit, but asserted that no additional taxation should be imposed on the working classes, who were already paying for the war in the increased duty on tea and beer, in the sacrifice of their lives, and in the increase of 30 per cent. in the cost of living. He suggested the assessing of farmers for income-tax purposes on their actual profits instead of on the basis of one-third of the rent, the abolition of the three years' average in order to get at abnormal war profits, and the imposition of much heavier taxes—up to a maximum of 15s. in the £—on large incomes.

Although a party truce had been declared at the beginning of the war, the political sky had for some time been far from clear, and, on May 25th, the Coalition Government was formed. Mr. Lloyd George left the Exchequer for the Ministry of Munitions, and handed over the budget to his successor, Mr. Reginald McKenna. The latter had the unique experience on June 14th of getting the second reading of the Finance Bill passed without debate. At the Committee stage there was, however, no lack of discussion. At this stage, Mr. Montagu, the new Financial Secretary to the Treasury, stated his agreement with the view expressed by Mr. Snowden that the Income Tax Acts were full of anomalies, that they worked unfairly and unequally, and that they required drastic revision, but said that such a complicated matter could not be settled in the middle of a great war ; with regard to the suggested abolition of the three years' average, with the intention of getting at abnormal profits arising out of the war, he maintained that such

abolition would under existing conditions be inadvisable, but the Government hoped, he said, to be able soon to submit to Parliament a watertight proposal for the taxation of war profits.

On June 21st, 1915, Mr. McKenna introduced his proposals for a new War Loan. Up to the end of the financial year, the realized deficit amounted to £334,000,000, but had since increased to £518,000,000, and to meet this, the Government had resorted to various forms of borrowing. The first War Loan had yielded £331,000,000, Exchequer Bonds had furnished £48,000,000, and Treasury Bills had been sold to the value of £235,000,000. After allowing for the repayment of certain Exchequer Bonds issued to meet part of the South African War expenditure, the total borrowings exceeded the realized deficits by £80,000,000, but a large part of this was needed for the repayment to the Bank of England of large sums advanced under Government guarantee to accepting houses and others during the financial crisis at the outbreak of war. This, coupled with the fact that daily expenditure had almost reached £3,000,000, and was still increasing, while the average daily revenue was only about three-quarters of a million, emphasized the need for an immediate loan.

He proposed a $4\frac{1}{2}$ per cent. loan issued at par, and for an unlimited amount, redeemable in 1945 or, at the Government's option, at any date after December 1st, 1925. Subscribers were to be guaranteed the right of conversion at par into any subsequent long-dated loan which might be floated during the war, while generous conversion terms were offered to holders of the first War Loan and certain other

Government securities. Three methods of issue were proposed: through the Bank of England in the customary manner, through the Post Office in £5 and £25 bonds, and in War Loan vouchers of five shillings or multiples thereof through the Post Office, trade unions, friendly societies, and works offices. The terms were criticized as being too generous, but it was essential to make the loan a success, and it was obvious that with the previous loan standing at a discount and, at the market price, yielding the investor $4\frac{1}{4}$ per cent., there was little chance of floating a loan for an unlimited amount at less than $4\frac{1}{2}$ per cent. On July 13th, Mr. McKenna was able to announce in the House the great success of the new loan, which had provided fresh money to the amount of £570,000,000, the total cash subscriptions finally reaching the then unprecedented amount of £587,000,000. Huge as this sum seemed, however, it proved sufficient to meet the expenditure of but three or four months, owing to the rapidity with which war costs were rising.

For some time, the issue of Currency Notes, introduced as a temporary measure in the early days of the war, had been the subject of discussion amongst economists and others, some of whom held that the notes should be withdrawn, a view which received the support of the Conference held in 1915 under the auspices of the British Association to consider the effects of the war upon credit, currency and finance, the Conference maintaining that if notes of low denomination were still required, they should be issued by the Bank of England. When the Finance Bill was in Committee, the Liberal Member for Coventry, Mr.

D. M. Mason, a member of the above-mentioned Conference, who not long ago published his views on this and other questions in *Monetary Policy, 1914-1928*, proposed a clause providing that the further issue of Currency Notes should be stopped and all notes outstanding redeemed within twelve months. The notes, he maintained, had an adverse effect on the foreign exchanges and were one of the most important of the various factors which had led to " the enormous increase " in the prices of commodities. (It is interesting to recall that at that time the cost of living figure, which eventually reached 176 per cent. above the 1914 figure, was only 25 per cent. above the pre-war level.) Contrasting notes issued by the Treasury and notes issued by bankers who were responsible for them and took precautions against over-issue, Mr. Mason declared that this " insidious power in the hands of the Treasury " to issue Currency Notes and dilute the currency was already creating great suffering, particularly among the working classes, and would, if persisted in, lead to misery and disaster.

Mr. Montagu, remarking that the City was almost unanimously against Mr. Mason, said that against the issue of £45 millions of notes, a gold reserve of £28½ millions had been built up, and suggested that Mr. Mason's complaint was due to the latter having forgotten that the notes were convertible, but this convertibility, it may be added, was materially modified by war-time restrictions and conditions. It is not surprising that the Government declined to accept the proposed clause, but Mr. Mason's motion served a useful purpose in bringing before the House

a matter the importance of which was not at the time generally realized.

The Finance Bill (No. 2) reached its third reading on July 14th, and at this stage many speakers sharply criticized the absence of fresh taxation. Replying to the criticism that only an insignificant proportion of war costs was being met by taxation, Mr. McKenna, attempting to defend his predecessor's policy, maintained that a percentage calculation alone was not a fair criterion, and that due regard must be had to the total expenditure and to the relation of the latter to the national income. He admitted the necessity for extra taxes, and agreed that they should be as direct as possible subject to the qualification that in the case of smaller incomes, the only practicable means of raising revenue was by indirect taxation, as the cost of collection of income-tax would be prohibitive. In conclusion, he intimated that at no distant date he would introduce proposals for a considerable increase in taxation. The Bill passed the Lords without debate, and became law on July 29th, 1915.

Unsparing criticism has been directed at Mr. Lloyd George for having failed in this budget to increase very considerably the revenue from taxation. We have quoted his own reasons for his action on this occasion, but it may be added that his absorption in the question of munitions, and the critical situation of the Liberal administration, were special circumstances which go far to explain the neglect to impose additional taxation for which public opinion was now fully prepared.

MR. McKENNA'S BUDGETS.

FIRST BUDGET, 1915-16 (REVISED).

September 21, 1915.

THE third war budget was introduced on September 21st, 1915, by Mr. McKenna in a speech which was remarkably terse and lucid, and the traditional congratulations received by the Chancellor on his performance were on this occasion well deserved. After a tactful reference to the difficulty, if not impossibility, of preparing accurate estimates in war-time, he announced that his predecessor's estimates of the previous May had had to be revised; revenue on the existing basis was now expected to yield during the current year £272 millions, an increase of £5 millions, and expenditure, assuming that the war would continue throughout the financial year, was estimated at £1,590 millions, an increase of £457 millions. To cope with the colossal burdens entailed by the war, every section of the nation, he said, must be called upon to contribute and to make sacrifices, but it was obvious that by taxation alone, only a small part of the deficit could be met.

Daily expenditure, which had attained the appalling figure of four and a half millions, was still rising and was expected to amount before the end of the financial year to over £5 millions. The Navy during the year would cost £190 millions and the Army £715 millions,

while external advances would amount to £423 millions. The steps taken by the Government at the outbreak of war to prevent financial chaos had been successful, but charges amounting to £36 millions had been incurred, and although perhaps largely recoverable eventually, had to be met during the current year. The remainder of the estimated expenditure was due to payments for food supplies bought for re-sale, allowances for contingencies, certain minor items, and £170 millions for the normal national services, excluding the Army and Navy but including additional debt charges incurred during the war.

Passing to taxation, the Chancellor stated that he had received many suggestions for new taxes which he had been obliged to reject, not in every case because they were bad, but because the staffs of the Boards of Inland Revenue and of Customs and Excise were necessarily limited, and it was therefore imperative, when proposing new taxation, to ensure that the additional labour involved was not such as would disorganize the Revenue services. This was apparently a very obvious point which should need no emphasis, yet many examples might be quoted where in recent times failure to realize its importance has resulted in financial chaos. There is little doubt that herein lies the explanation of why British war taxation was more successful than that of the United States, where the tax laws imposed upon the Internal Revenue Bureau duties which were beyond its capacity.

Mr. McKenna proposed to increase the income-tax rates by 40 per cent., but as this increase was to be

applicable only for the latter half of the financial year, the change represented an increase of only one-fifth for that year. Relief from the additional 40 per cent. was proposed in certain cases. The whole of the additional duty would be repayable to any individual assessed on the average of the three preceding years who could prove that his actual income from all sources was 20 per cent. less than the income upon which he paid tax, and in those cases where the deficiency was not 20 but exceeded 10 per cent., a proportionate repayment would be made. Fundamental changes in the income-tax system were proposed. The exemption limit of £160 was to be reduced to £130, and this entailed changes in the abatements; on incomes above the exemption limit but not exceeding £400 the abatement was to be reduced from £160 to £120, on incomes from £400 to £600 the abatement would be £100, while on incomes from £600 to £700, it would remain at £70 as before. The next proposal was that the assessment under Schedule B, which applied to incomes derived from the occupation of lands, should be taken to be the rent paid instead of one-third of that amount as under the existing system, although the taxpayer would still retain the right to claim to be assessed on his actual profits.

Payment of income-tax by instalments, a subject which had received much attention in the previous budget debates, was to be re-introduced. In many cases, the tax for the whole year had hitherto been payable in January, and, at the comparatively low rates of tax in force, no very serious hardship resulted, but with the very considerable increases in the tax, the proposed system of payments by half-yearly

instalments, on January 1st and July 1st, promised welcome relief to many harassed taxpayers engaged in trade, agriculture, or the professions. Further proposed innovations, almost inevitable with the reduction of the exemption limit, were quarterly assessment and collection of income-tax for employees of all descriptions, subject to the provision that at the end of the financial year, assessment, abatements and reliefs would be based on the full year's income and any necessary adjustments would be made. The income-tax changes were estimated to produce in 1915-16 an additional £11,274,000, and in a full effective year £44,400,000, made up as follows: the additional 40 per cent. was expected, after allowing for the proposed reliefs, to yield £37,400,000, the reduction of the exemption limit only £939,000, the reduction of the abatements £3,821,000, while the increased liability under Schedule B was expected to bring in an additional £2,240,000.

The rate of super-tax payable on incomes exceeding £8,000 was also to be revised. Under the existing scale, the excess over £8,000 was chargeable at the rate of 2s. 8d. in the £, but under the proposed scheme the excess would be charged at the rate of 2s. 10d. in the £ for the first £1,000, 3s. 2d. for the second £1,000, and 3s. 6d. for the amount by which the income exceeded £10,000. The new scales of income- and super-tax very considerably increased the burdens placed upon the taxpayer. A man with no children and earning £3 a week, hitherto exempt, would pay 18s. 11d. quarterly, a taxpayer with £5,000 a year would pay £1,029 in super-tax and income-tax combined, while the fortunate possessor of an income

of £100,000 would have to pay £34,029, which would mean a rate of 6s. 10d. in the pound.

Mr. McKenna next gave details of the proposed excess profits duty which was to be extended to all trading and manufacturing concerns whose profits for any business year of account, ending on any date between September 1st, 1914, and July 1st, 1915, exceeded the profits upon which income-tax was assessed for 1914-15 by more than £100. On such surplus above £100, the duty was to be assessed at the rate of 50 per cent., but allowances were to be made in certain cases. An amount equal to 6 per cent. on the capital employed in the business on April 5th, 1914, was to be taken as the datum line where such sum exceeded the profits assessed to income-tax for 1914-15. A special tribunal was to be appointed to fix the datum line for businesses mainly carried on before the war for supplying munitions and war materials to the Government and whose profits in the preceding three years had not given a fair return on the invested capital. Allowance was also to be made for additional capital invested since the outbreak of war, and for capital invested during the three years immediately preceding the war which had during that period been unremunerative. In these two cases the normal rate of interest applicable would be 6 per cent., but this rate might be increased by the tribunal for special reasons such as rapid depreciation, obsolescence, or the employment of capital for war purposes only.

The duty was limited during the current year to accounting periods ending between the above-mentioned dates so that there should be no interference

with the operation of the Munitions Act with regard to controlled establishments which came under the provisions of that Act. The Government intended to make arrangements before the next budget to dovetail one Act into the other in the ensuing year. The excess profits duty was estimated to produce in a full effective year the sum of £30 millions, but during the current year the yield was not expected to exceed £6 millions.

Radical changes were proposed in indirect taxation. There were to be 50 per cent. increases on tea, tobacco, cocoa, coffee, chicory, and dried fruits, and 100 per cent. on patent medicines. The duties on motor spirit were to be raised by threepence from 3d. and 1½d. to 6d. and 4½d. respectively, and, owing to the great need for revenue, the proceeds of the duties would not be paid into the Road Improvement Fund. The principal increase in indirect taxation was, however, the raising of the main sugar duty from 1s. 10d. to 9s. 4d. per hundredweight, which was expected to yield during the current year an additional £5,360,000, and in a full year more than double that amount. Later in the evening, Mr. Montagu, Financial Secretary to the Treasury, informed the House that it was proposed to impose an Excise duty of 7s. per cwt. on home-grown sugar, which had hitherto been exempt from duty. The full effect of the increased Customs duty would not be felt by the consumer, as it was proposed that the Royal Commission on Sugar Supplies, which had bought huge stocks at very favourable prices, should reduce its prices to dealers and refiners by from 2s. 6d. to 3s. 0d. per cwt. The net result of the increased duty and decreased

wholesale price was expected to be an increase in price of about 5s. a cwt. or a halfpenny a pound, which meant that granulated sugar would be retailed at 4d. instead of 3½d. a pound.

The spirits and beer duties were untouched. The Chancellor explained that he refrained from proposing increases in the beer and spirits duties because beer had been very heavily taxed the previous November, and the reasons given at that time by his predecessor for not increasing the spirits duty still held good. The general question of the consumption of liquor was, he said, being dealt with by the Liquor Control Board, whose efforts had, he understood, already resulted in a considerable reduction of consumption.

Doubtless feeling that he was on dangerous ground, Mr. McKenna took the precaution of preparing the way at an early part of his speech for the new import duties, and returned to the subject at a later stage to disclose the proposed rates and the selected commodities. In the Coalition Government, antagonistic party principles had to be satisfied on both sides. The Conservative Members of the Government made no claim that a policy of protection should be adopted in the budget, but they maintained equally that no duty should be excluded which could be shown to be financially or otherwise advantageous in the prosecution of the war, merely because it would be contrary to free trade principles. No resistance to such a contention was possible, and Mr. McKenna accordingly summarized his position as follows: To obtain revenue was the first object of taxation, he said, but there were other objects which could not be ignored. At the present time, he maintained, taxation had to

be imposed with objects beyond revenue, with objects which were purely temporary, and without regard to the permanent effect upon trade. The state of the foreign exchanges emphasized the need for a reduction of unnecessary imports and, he continued, it was imperative on wider grounds to reduce consumption of non-essentials, so that, for the time being, the ideal system would be one which would at one and the same time restrict imports, reduce consumption, and bring in revenue.

On these grounds, and keeping in view the necessity of not interfering with the trades which were most lucrative to us and upon which our exports depended, he proposed to impose on motor cars, motor cycles and parts thereof, cinema films, clocks, watches, musical instruments, plate glass and hats, *ad valorem* Customs duties at the rate of 33⅓ per cent., or its equivalent—as he somewhat loosely termed it—in the form of a specific rate. These were the only commodities which an exhaustive examination had shown to fulfil the conditions laid down, and of these the only serious item was the tax upon motor cars, as to which it may be noted that the motor industry in this country had been practically closed down.

In addition to increased rates in the more obvious forms of taxation, the Chancellor proposed to obtain an additional £1,980,000 from the Post Office. He suggested the abolition of halfpenny postage, the reduction of the letter weight carried for one penny, and the introduction of a higher scale for parcels post. Certain telephone charges were to be advanced, the minimum charge for telegrams was to be raised from sixpence to ninepence, and the existing rates for

Press telegrams, which involved an annual loss of £200,000, were to be considerably increased in order to make the service self-supporting. Other changes included the raising of the poundage from ½d. to 1d. on postal orders not exceeding 2s. 6d.

On the ground that postal charges were not taxes but were merely payments for services rendered—a dictum of peculiar interest for economists—the Speaker, a few days later, ruled that the resolutions embodying these proposals were unnecessary, and intimated that the insertion of any clause dealing with such charges might imperil the position of a Finance Bill as a Money Bill within the meaning of the Parliament Act. Certain of the proposals, including the abolition of halfpenny postage, were not proceeded with, owing to the opposition they aroused, while others such as, for example, the change in letter postage rates, did not require legislative sanction and were implemented by executive action. The remaining proposals, in deference to the Speaker's ruling, were made the subject-matter of a separate Bill which, on October 28th, became the Post Office and Telegraph Act, 1915.

The proposed increases in postal charges were based on the report, dated the previous day, of the Retrenchment Committee which had been appointed to inquire and report, in view of war conditions, what savings in the expenditure of the Civil Departments could be effected without detriment to the interests of the State. Various economies were suggested, amongst which may be mentioned the reduction of local expenditure on all but the essential services, and the suspension of the activities of the Road Board

with the retention in the Exchequer of the normal income of the Road Improvement Fund. Owing to improvements in the pay and working conditions of the staff, and partly to reduced charges and improved facilities, Post Office expenditure had in recent years shown considerable expansion without any corresponding increase in revenue. The Committee had given particular attention to those branches which had been non-remunerative, and had adopted the principle that however desirable it might be in peace-time to provide facilities such as those relating to Press telegrams, such subventions were in war-time inexpedient.

Mr. McKenna, having concluded his taxation proposals, proceeded to sum up the general financial position. Revenue on the existing basis of taxation amounted to £272 millions, so that with the additional £33 millions from increased taxation and postal charges, the estimated revenue for the current year amounted to £305 millions. This unprecedented total, however, paled into insignificance in comparison with the estimated expenditure, and the net result of the year's finance would be, if the budget figures were realized, a deficit of £1,285 millions. The Chancellor calculated that the total dead-weight debt, including that representing advances to Allies and Dominions, and allowing for the effects of conversion and for loss on stock issued at a discount, would at the end of the financial year reach the figure of £2,200 millions. He claimed that the new taxation had been devised strictly in accordance with the principle of ability to pay, while the burden had been justly distributed between the present and the future, and concluded with a

warning that unless the war soon terminated, the tax burden would have to be still further increased.

The first to rise was Mr. Chaplin, who expressed his pleasure at finding the Chancellor resorting so largely to the imposition of Customs duties, and asked whether it were not possible to impose duties which might have the effect, through our numerous favoured-nation treaties, of seriously injuring our great enemy. He then commented on the fact that in previous wars we started with taxation on a peace footing, but this time, he maintained, it was already on a war footing before the war had commenced, and, therefore, the increases in taxation foreshadowed in the budget speech should not lightly be entered upon, as they might deal a deadly blow at the trade and industry of the country. Mr. Lough complained that Mr. McKenna had exaggerated the national expenditure by including items such as loans to Allies and food purchases which ought to appear in separate accounts, and that, excluding such payments, the total expenditure for the year would be £1,070 millions instead of £1,590 millions. He appealed for the suppression of waste, especially in Army expenditure, and concluded with a forcible criticism of the new import duties. The attack on these duties was continued by Mr. Leif Jones, who emphasized the point that foreign exchanges would be turned in our favour by restriction of imports only in so far as the consumption of luxuries was thereby curtailed. If you diminish imports, he said, and substitute the consumption of some home-made article which might otherwise have been exported, you have done nothing to benefit the exchange.

Mr. Harry Hope, the only speaker who was definitely in favour of a larger proportion of war expenditure being met by loans, suggested that Germany, who was meeting war costs by borrowing, had nothing to learn in the way of conducting war. The outstanding feature of the remaining speeches on budget night was criticism of what was termed the protectionist character of the new import duties.

Two days later, Mr. Barnes, who had been deputed to express the views of the Labour Party, said that they considered it ominous that the whole of the new taxation in a full year, amounting to approximately £100 millions, would only just pay the interest on the debt outstanding at the end of the year, and suggested that too little had been taken by taxation and too much by loans. They were willing to support the budget and any other Government proposals for the conduct of the war, so long as there was no fresh disparity of taxation between class and class, so long as no unnecessary inroads were made on the slender resources of the very poor, and so long as there was no sacrifice of any vital principle or interest of the country.

The Labour Party criticized the lowering of the income-tax exemption limit on the ground that the additional administrative expenses were not justifiable in view of the low yield, while the taxpayers concerned would be doubly hit as they would have to bear also the burden of additional indirect taxation. The party welcomed the excess profits duty, but thought that the tax should have been imposed at the rate of 80 per cent., and maintained that the Government should have assumed from the first the control of

certain industries and so have prevented these profits accruing. They did not object to the increased tobacco duty, but strongly protested against the other increases in indirect taxes which it was alleged placed an additional burden of sixteen millions on the very poor. The abandonment of free trade principles involved in the new import duties was regretted, said Mr. Barnes, although he was not unmindful that the duties were intended to discourage imports and extravagant spending. With apparently little justification he referred to the proposed abolition of halfpenny postage as being in some respects the greatest blot on the budget. Having adversely commented on the absence of any provision for the taxation of land values, he concluded by reaffirming that his party would, subject to the principles previously mentioned by him, do their part in whatever might be necessary to bring the war to a successful conclusion.

Mr. Arnold commented on the number of speakers who considered that taxation was still too light, and averred that not only should it be immediately increased but that this should have been done long before. He objected to the raising of the tea and sugar duties on the ground that it would tend to reduce the efficiency of the wage-earners, and maintained that the reduction of the exemption limit from £160 to £130 was not only uneconomical owing to the increase in administrative costs, but was unjustifiable unless and until it could be shown that the wealthier classes could not wisely be called upon to contribute more. The total prohibition of certain imports was to be preferred, he said, to the proposed system of

import duties which, though ostensibly emergency measures, were more likely to be permanent.

Sir Alfred Mond commenced a lengthy speech with an explanation, which in spite of obvious weaknesses interested the House, as to why huge sums had been able to be transferred to the Exchequer without causing any serious disorganization of the economic life of the country. Firstly, he declared, much of the increase in national expenditure, such as the cost of feeding and clothing millions of soldiers, was apparent rather than real, in that it was merely a transference from private to public spending. Secondly, and here Sir Alfred was on less certain ground, the annual production of a workman in this country was estimated at £100, and therefore, said he, with three million men under arms the loss of national income would not be more than £300 millions, which, in view of a national income of £2,500 millions, was not a loss calculated to ruin the country. Thirdly, £450 millions had been lent to our Allies, but we had been in the habit before the war of lending from £350 millions to £400 millions yearly abroad, and whether we lent it in one way or another was immaterial, he maintained, if (and this was unfortunately a large " if ") we duly received the interest. Finally, there was a big reserve of people who could be utilized in productive industry. Sir Alfred, who was at that time one of the treasurers of the Free Trade Union, proceeded to deal with the new import duties, which he described as an amateur tariff, wrong in incidence, and impracticable and ineffective in execution. He had no wish to raise controversies, he said, but no one had asked the Government to introduce, in the middle

of the war, a full plan of tariffs, and there were many like himself who would feel it to be their duty to oppose these protective duties at every opportunity.

In reply, Mr. McKenna asserted that no fiscal principle of any kind had been compromised by the proposals, which had been introduced with the sole objects of obtaining revenue and of restricting the importation of unnecessary luxuries. There was no other object, he declared, and on the following July 31st, when the duties would automatically cease, Parliament would have the option of renewing or discontinuing them.

At every subsequent stage, these duties encountered determined opposition. Lt.-Col. Wedgwood suggested that the Liberal Members of the Cabinet who had consented to the duties could not have understood what it meant to the ordinary rank and file of Liberals in the country. The proposals were a definite breach of the party truce, he said, and in his opinion were the throwing down of the gage of battle. Mr. McKenna denied this and, while reaffirming that free trade was the best policy for this country and every other country in normal circumstances, maintained that there might be conditions in war when the principles of free trade break down.

Replying later to further free trade criticism, the Chancellor said that prohibition of imports—a suggested alternative—was for many reasons undesirable, and corresponding Excise duties, which would have silenced the free traders, were impracticable owing to shortage of staff. He admitted, however, the strength of the argument that many cars were imported for business purposes, and that it was

undesirable to impose duties on anything which facilitated business. He promised to propose subsequently the exemption of all motor lorries and vans used exclusively for business purposes, and appealed to Members not to continue the arguments on the general principles of free trade, but to consider each tax on its merits.

Owing to suggestions which had naturally been made in various quarters, Mr. Bonar Law formally disclaimed any responsibility for the introduction of the duties. There was, he said, an impression that they were due to the existence of a Coalition Cabinet, and that they were the result of pressure put by him and other Conservative Ministers on their colleagues in the Cabinet, but the idea was a complete delusion. Mr. Asquith made a similar statement the following day when endeavouring to still the free trade criticism. The budget, representing the unanimous judgment of a united Cabinet, should, he asserted, be regarded as a whole, and he strongly deprecated any attempt to upset the balance. He appealed to the House to "let these controversies which are in a state of suspended animation continue during the war in a state of suspense."

Criticism, however, was not yet stilled. Mr. Lough, rising later, said: "The Prime Minister made a partisan speech, repeating the weak arguments that were put forward a hundred times last night, adding nothing new to the debate but using his great authority to put those of us who are fighting in such difficult circumstances in an even greater predicament than we were in before. What was the doctrine laid down by the Prime Minister? It was all bound up in one

point, namely, that there was a united Cabinet . . . and that because the Cabinet had considered the tax, the House of Commons ought to accept it. I protest against that doctrine . . . I say with great respect—I know I am speaking against a high authority—that that doctrine would be fatal to the liberties of the English people. It is no part of the business of the Cabinet to legislate. It is our duty, humble as we are, and knowing little as compared with the great men on the Treasury Bench, to use the intelligence we have and to bring it to bear on every legislative proposal the Government bring forward. . . . If the Government wish to avoid these debates . . . they ought not to bring forward these contentious proposals."

The best statement of the case for the import duties was perhaps that made by Mr. Montagu at the second reading. He averred that the duties were intended as purely temporary measures, and that the articles had been selected on no principle whatsoever other than that, in the opinion of the Government, they would yield, compared with other articles which might have been selected, a substantial source of revenue ; in addition, the curtailment of the use of these articles would cause nobody any harm, they were easy for an overburdened Customs Department to collect, and, finally, the duties would give some indication of the lengths to which the Government would go to curtail needless expenditure.

Before the resolutions left the Committee of Ways and Means, the Chancellor had dropped the proposed duties on hats and on plate glass, the first mainly owing to the difficulty of obtaining a satisfactory

definition of hats, and the second in deference to objections—described by Mr. McKenna as purely business objections—raised in the House. Other concessions were the exemption of business cars previously mentioned, and the exclusion of tyres from the definition of motor parts. The other duties survived the attacks of their critics, but, at the report stage, the duties on films, blank and negatives, were altered to one-third of a penny and 5d. per foot respectively to bring them into better relation with the rate on positives, which remained unaltered at 1d. per foot.

On October 12th, the day preceding the second reading of the Finance Bill, Mr. McKenna introduced a Bill authorizing the raising of a loan, in conjunction with the French Government, in the United States. This was an attempt to deal with the foreign exchange problem which, owing to huge purchases abroad, was becoming more and more acute. The loan had already been fully underwritten—at 96—but it could not be issued to the public without Parliamentary sanction. Issued to the public at 98, the loan, which consisted of five-year five per cent. bonds, amounted to five hundred million dollars, of which the French and British Governments had equal shares.

Taking advantage of the opportunity provided by the second reading of the Finance Bill to criticize its main principles, Mr. Snowden expressed regret that the Chancellor had not imposed much heavier taxation, and made the suggestion—which was subsequently repudiated by Mr. Montagu—that the Government were raising only sufficient to pay the interest on the debt. He maintained that some of the proposed

taxes had been introduced without any necessity and had caused a great deal of irritation and opposition in the country; the protectionist taxes were, he continued, merely the thin end of the wedge and were the price paid for a Coalition Government. After showing, by means of calculations which were ingenious if not perhaps ingenuous, that the incidence of the additional income-tax was unequal and that in some cases the increase would amount to 2,600 per cent., he made the suggestion—somewhat surprising from him—that a graduated poll-tax would be far more equitable for incomes under £200 than the proposed system of income-tax with its various abatements and allowances. The ideal tax system was, he declared, one which consisted only of income-tax and death duties, with taxes on alcoholic liquors and, perhaps, tobacco. He suggested, however, that a tax on capital—in normal times undesirable—was now necessary owing to the great need for additional revenue, and he adumbrated a scheme estimated to produce £500 millions; the tax would be imposed only on persons owning more than £1,000, the rate varying from a minimum of 1 per cent. to 10 per cent. on millionaires. From this time onwards, the idea of a tax on capital—or, as it was popularly termed, the Capital Levy—became more and more prominent until the General Election of 1922, when it formed one of the principal planks of the Labour Party's platform.

Most of the proposed increases in existing indirect taxes passed into law without amendment. In 1890, a Convention had been signed with Greece agreeing that a year's notice should be given of any

proposed increase in our import duty on currants. This had apparently been overlooked when the budget was being prepared, but when it was brought to the notice of the Chancellor, the proposed additional shilling on currants was immediately withdrawn. Further modifications were the increase from 1½d. to 3d. per gallon of the rebate allowed to commercial users of motor spirit, and the extension to Off Licences of the rebates of the liquor licence duty in respect of restriction of hours of sale hitherto payable only to On Licence holders. The increased duty on patent medicines was postponed from September 29th to October 20th, in order to give the trade time to re-stamp their stocks.

Two important concessions were made in regard to income-tax. The relief in respect of children under the age of 16 years was increased from £20 to £25 per child. Arguing against the extension of the principle to wives, Mr. Montagu said that the cost would amount to the formidable figure of £1,000,000 a year, and suggested that a wife was a no more suitable cause for relief than other dependent relatives. The second concession was granted in respect of soldiers and sailors with incomes not exceeding £300 who were given the right to claim to pay income-tax at the rates in force at the outbreak of war.

On the ground that the excess profits duty was intended to fall on profits enjoyed during the war, Mr. McKenna accepted an amendment altering the date upon which the duty became operative from September 1st to August 4th, 1914. Further amendments were made. The exemption limit from duty was raised from £100 to £200, and private firms were

to be allowed to estimate their basal profits on 7 instead of 6 per cent. of their capital because no payments corresponding to directors' fees were deducted from their profits. Instead of the three years' average as originally proposed in the budget, pre-war profits were to be calculated on any two—chosen by the taxpayer—of the three pre-war years, and further relief was provided for certain firms who had been particularly unfortunate.

Many critics of the excess profits duty emphasized the injustice of subjecting trade profits to a heavy tax while allowing most professional earnings and profits from husbandry to escape scot-free. Mr. McKenna gave two reasons for the exemption of professional earnings: firstly, the yield from this source would be very low owing to the £200 exemption limit which would exclude most professional men, and, secondly, it was impossible to devise a satisfactory datum line in the case of members of the professions who were making their profits by the excessive expenditure of their capital, that is, their energy, brain power and health. Speaking against an amendment to include profits from husbandry, Mr. Montagu asked the House to consider how severely the new income taxation, including the lower exemption limit and increased Schedule B assessment, pressed on agriculture. In reply to this, Sir J. Walton maintained that farmers' contributions to income-tax had in the past been absolutely unfair, and that the new proposals simply meant that farmers would now be compelled to pay approximately at the same rate as all other income-tax-payers. Replying to wider criticism of the excess profits duty, Mr. McKenna

admitted that as a permanent measure it would be absolutely indefensible, but averred that owing to the great need for additional revenue, the duty was almost inevitable. To obtain an additional thirty millions, he said, he was faced with two alternatives: the proposed duty which would be raised mainly from persons who were enjoying profits in excess of those they enjoyed in peace, or a further shilling on the income-tax which would fall mainly on the great masses who were worse off.

In the course of debate on the excess profits duty, it was suggested that higher incomes derived from increased mineral rights royalties, due to increases in the price of coal or ores, ought to be treated as excess profits, and on November 3rd a resolution was introduced imposing a duty of 50 per cent. on excess mineral rights. At the same time, a further resolution was brought forward which was intended to prevent various methods of income-tax evasion. One method which had been adopted was the nominal sale to a firm abroad of goods manufactured in this country; the foreign firm would then re-sell to a retailer here, but the transactions would be arranged at such prices as showed no profits except to the foreign trader, and in this way the British manufacturer and retailer evaded liability to income-tax.

Tax evasion obviously tends to increase when rates of taxation increase, and it is significant that the Government found it desirable at this time to obtain legal authority to restrict when necessary the delivery of dutiable goods. The budget had been preceded by heavy forestalments. In the first ten working days of September, for example, the clearances of

tea exceeded those for the corresponding period of the previous year by more than seven million pounds, and the Chancellor, acting illegally but confident that his action would be endorsed and legalized by Parliament, had stepped in and restricted deliveries. The Treasury obtained statutory authority to prohibit during any period not exceeding three months the deliveries of any dutiable goods in quantities which were deemed to be unreasonable. This authority, which was limited by the Finance Act to the period of the war and twelve months thereafter, was in 1919 extended for an indefinite period.

At the third reading, much of the discussion dealt with the excess profits duty. Sir Alfred Mond rightly maintained that the use of two separate methods of taxation—the excess profits duty and the munitions levy—the objects of which were similar, could not indefinitely continue. Mr. Peto contended that the former tax, which fell not only on war profits but also on those earned in the twelve months preceding the outbreak of war, was inequitable in that some firms would be taxed for nearly a year more than others, according to the accounting period; he further maintained that the argument that it would come right at the conclusion of the tax was fallacious, as no one could prophesy whether at that time there would be any excess profits at all.

The Finance Bill passed through all its stages in the House of Lords on December 21st. At the second reading, Lord Courtney of Penwith, in the course of an interesting speech, warned the Peers that the war had not reached an end, that its end was not even in sight, and that within a very short time the

burden of taxation might have to be very considerably increased. He then proceeded to outline—somewhat loosely, perhaps—one of the fundamental principles of war finance. Remarking that the phenomena of money often hide the facts which underlie those phenomena, he asserted that the whole cost of the war must necessarily be defrayed by production of the things consumed within the year. The notion, which was widely held, that we could start with a great reserve in stock or that by the use of credit we could command unlimited supplies was, he said, illusive and delusive. The amount we could apply to the war, he continued, was limited by the production which was possible, minus what was absolutely required to keep the population going.

The Finance (No. 3) Bill on December 23rd, 1915, received the royal assent and became the Finance (No. 2) Act, 1915.

This budget marks a definite stage in war finance. The first war budget, although substantially increasing the tax revenue, was in the nature of a temporary expedient ; the second war budget was merely a lost opportunity ; but Mr. McKenna's budget was a definite attempt to place our finances on a war basis. All practicable sources of revenue, new and old, were considered, and most of them were pressed into service, while the great financial engine, the income-tax, was raised to the then unprecedented rate of 3s. 6d., and the exemption limit reduced to £130, the lowest figure for nearly forty years.

Some writers have gone so far as to suggest that Mr. McKenna, and he alone, by the courage displayed in the framing of this budget, saved us from financial

ruin. It is at all events certain that he was the first War Minister who had the courage to seize the opportunity afforded by ripening public opinion of raising the taxation of the country to a level more adequate to the demands of war expenditure. His predecessor had foreshadowed the probability of increased taxation if hopes of an early peace should disappear; the debates at the later stages of the previous Finance Bill had been marked by caustic criticism of the absence of increased taxation, and influential sections of the public and the press were openly in favour of a more vigorous financial policy, particularly in the direction of the taxation of excessive war profits; furthermore, the foreign exchanges were giving rise to serious concern, and the need for restricting the extravagant spending of all classes was becoming more and more apparent. If, however, the first test of statesmanship is ability to judge when the moment for action has arrived, it is no disparagement of Mr. McKenna's achievement to recognize that it had been to a considerable extent prescribed for him by the course of events.

MR. McKENNA'S SECOND BUDGET, 1916-17.

April 4, 1916.

On the fourth day of the new financial year, Mr. McKenna introduced his second and last budget. Its early appearance surprised nobody, for additional taxation usually means an early budget, and, in view of the rapid and continuous increase in expenditure,

additional taxation, both direct and indirect, was regarded as a certainty.

The Chancellor, dealing first, as is customary, with the expenditure of the previous year, announced that the actual amount issued from the Exchequer was £1,559 millions, or £31 millions less than the estimate. In the latter, provision had been made for loans amounting to £354,500,000 to Allies, and a further £68,500,000 to the Dominions, but the actual net issues had amounted to only £264 millions and £52 millions respectively, showing a saving of £107 millions on the estimate. The gain on loans to Allies was, however, largely illusory, as it was almost entirely attributable to delays in the dates on which various payments had fallen due, and to the fact that certain sums, which had actually been received by the Allies, had not yet been brought to account.

Expenditure on our own services, the Chancellor claimed, had been approximately near the Estimates, and the difference between the apparent saving of £107 millions under the head of advances to Allies and the Dominions and the net saving of £31 millions on the year was due to the purchase of American securities for the purpose of stabilizing the exchange. The cost of all shares purchased was included in the previous year's expenditure, although we had a substantial balance in hand, consisting partly of unsold securities and partly of the unexpended proceeds of sales. The amount of this credit balance was not disclosed by the Chancellor, and did not appear separately in the national balance sheet, thus emphasizing a weakness of the accounting system.

The revised estimate of the previous year's revenue had been £305 millions, but that figure had been exceeded by £32 millions, income-tax, super-tax, Customs and Excise, and miscellaneous revenue all contributing to the excess. This, in the Chancellor's opinion, clearly showed the extraordinary energy and expansive power of our trade. Instead of the estimated revenue of £6 millions from excess profits duty, only £140,000 had been collected, owing to the delay which occurred in the passage of the Finance Bill through the House, but the deficiency had been more than counterbalanced by forestalments amounting to £7 millions.

The previous year's finance had resulted in a deficit of £1,222 millions, which had been met by borrowing. The War Loan issued the previous June had yielded approximately £600 millions, our share of the Anglo-French Loan had amounted to £50 millions, and a further £154 millions had been raised by the sale of Exchequer Bonds. The balance had been obtained by the issue of 3, 6, 9 and 12 months' Treasury Bills. The pre-war debt of £650 millions, to which additional debt to the tune of £458 millions had been added in 1914-15, stood on March 31st, 1916, at £2,140 millions. Mr. McKenna maintained that nothing like the whole of that gigantic sum would fall as a permanent dead-weight on our finances, as loans to our Allies and Dominions accounted for £368 millions, and relief would come to us in the future in respect of that amount. The astounding manner in which British credit had withstood the unprecedented demands made upon it was due, he claimed, to the fact that we never borrowed a pound without previously

providing by taxation sufficient to cover both interest and a liberal sinking fund.

Turning to the estimated expenditure for the current year, he mentioned that there would be an inevitable increase even upon the huge figures of the previous year. The Navy, Army, and Ministry of Munitions, together with miscellaneous expenditure amounting to £30 millions and included in the vote of credit, brought our own direct expenditure on the war to £1,150 millions, or over £3 millions a day. Consolidated Fund Services (including debt charges), Supply Services, and advances to Allies and Dominions amounting to £450 millions, brought the total estimated expenditure to £1,825 millions, which was almost exactly £5 millions a day. The organization, under conditions of peculiar difficulty, of a vast army had militated against economical expenditure, said Mr. McKenna, but he hoped that considerable economies would be effected during the year, and would at least neutralize the effect of rising prices.

A few days earlier, the King had placed at the disposal of the Treasury the sum of £100,000, and had expressed the wish that this war contribution should be applied in whatever manner was deemed best by the Government. Before dealing with the estimated revenue for the current year, the Chancellor formally expressed the gratitude of the House for what he termed His Majesty's kingly contribution to the service of the country. He then proceeded to demonstrate that ample provision had been made by additional taxation to cover the charges for interest and sinking fund on debt which would be incurred during the current year. Ignoring the excess profits

duty and munitions levy on the ground that they were temporary revenue, but including £7 millions in respect of forestalments in the previous year, he put the estimated revenue from taxation for the current year at £423 millions, an increase of £93 millions over the previous year's tax receipts less the £7 millions forestalments ; the latter sum he rightly included for this purpose in the current year's revenue, for although received in the previous year, it represented dutiable goods which would be consumed during the current year. Calculating on a basis of 5 per cent. for interest, and a sinking fund of 1 per cent.—which would repay the capital in thirty-seven years—the charge in respect of £1,323 millions of new debt would for interest and sinking fund together amount to only £79 millions, or £14 millions less than the new taxation exclusive of excess profits duty and munitions levy.

Prior to disclosing details of the new taxation, he stated the three principles upon which he based his proposals, namely, first and foremost, to obtain sufficient revenue to enable us to meet our obligations ; secondly, to pay as large a proportion as possible of the cost of the war ; and, thirdly, to distribute the burden of taxation fairly over the whole community. For the benefit of those who advocated far heavier taxation than he was about to propose, he suggested that although the nation was exhibiting an unparalleled willingness to submit to taxation, it would be unwise to press too far the prevailing spirit of sacrifice, owing to the inequalities of the tax system which accentuated the hardship experienced by certain classes in maintaining a satisfactory standard of living.

Little surprise was evinced at the Chancellor's proposal to increase still further the income-tax rates and to obtain thereby an estimated additional £43,500,000 in the current year. Under the proposed scale, the increase on the existing rates, although inconsiderable in the case of the smaller incomes, rose to a maximum of 1s. 6d. on the higher rates. On earned incomes up to £500 a year, the rate was 2s. 3d. instead of 2s. 1⅕d., and rose to the maximum of 5s., which was applicable to earned incomes exceeding £2,500. On unearned income, the new scale began at 3s. on incomes not exceeding £300, and rose by stages of 6d. to 5s., the rate payable on unearned incomes exceeding £2,000. Mr. McKenna refrained from increasing the super-tax on the ground that the income-tax was graduated in such a way as to fall heavily on all incomes subject to super-tax. It is necessary to remember that the income-tax scale, introduced by the Chancellor in his previous budget, was applicable for only the latter half of the preceding year, so that the further increase in the rates meant still greater increases in actual practice, the new maximum rate of 5s. corresponding to an actual maximum of 3s. in 1915-16.

Two income-tax concessions were announced. With regard to the difficult problem of double taxation, Mr. McKenna said that it was a subject which would have to be dealt with in the long-promised reconstruction of the income-tax laws, and for the time being, the most he could do was to refrain from increasing the burden on incomes subject to both British and Dominion income-tax by allowing, in all cases where the Dominion tax was not less than 1s. 6d., the

repayment of the additional amount now imposed. The second concession was the exemption of naval and military pay from the additional rates of tax.

Indirect taxation was to provide in the current financial year an additional £21 millions, one-third of which would be derived from an increase of one halfpenny a pound on the sugar duty. The Sugar Commission's wholesale price in bond was only a little more than $2\frac{3}{4}$d. a pound, or nearly a farthing less than the New York price, in spite of the fact that the charge for freight, insurance and handling would in the ordinary way of trade be approximately a penny a pound. "We cannot continue to sell sugar at this cheap rate in comparison with the world's price," said Mr. McKenna, "and we therefore propose to add $\frac{1}{2}$d. to the price, which we take in the form of duty." Mr. McKenna proposed to increase the existing duties of $1\frac{1}{2}$d. on cocoa and 3d. on coffee and chicory to 6d. a pound in each case, in order to bring these duties into better relation with the duty on tea. The new rates, after the further slight modification mentioned below, appeared to furnish a satisfactory solution to a problem which had been the subject of much discussion, some of it of a pointed character, in previous budget debates.

Additional revenue, estimated at £800,000, was to be raised from the licences on motor cars and motor cycles. The existing rates on motor cars varied, according to horse-power, from £2 2s. up to £42, and there was a flat rate of £1 for motor cycles. The various rates on cars not exceeding 16 horse-power were to be doubled, and the rates on higher-powered cars trebled, while motor cycles not exceeding 4

horse-power would pay a licence duty of £2 2s., those of higher power being charged at three-fourths of the relative car rate. These increased duties were introduced in an attempt to reduce petrol consumption and the unnecessary use of motor cars, but their incidence and effects would have been in many cases anomalous and unjust. As we shall see later, however, the proposed increases were subsequently abandoned, and in their place was substituted the motor spirit licence duty.

An interesting feature of the budget was the number of taxes which, if not original in conception, were partially or wholly new to British practice: they included duties on entertainments, railway tickets, matches, mineral waters, cider and perry. The proposed entertainments duty, which had been suggested in various forms in recent budget debates and also during the Napoleonic Wars, more than a century before, was to be levied on all payments for admission to any entertainment, such as a cinema, theatre, football match and horse race. The proposed scale of duties varied according to the prices paid for admission, rising from a halfpenny on charges not exceeding 2d., to one shilling on 12s. 6d. tickets, with an additional shilling for every 10s. or part of 10s. A large proportion of the estimated yield, which for the current year was £5 millions, was expected to be derived from the cheaper seats, a point which not unexpectedly attracted criticism in the subsequent debates.

Under the proposed tax on railway tickets, short journeys costing 9d. or less were to be exempt, but on all fares from 9½d. to 1s., there would be a tax of

1d., and on every fare exceeding 1s., a tax of 1d. for every shilling or part of a shilling. A similar exemption limit of ninepence had been suggested in 1876 by a Select Committee on the railway passenger duty, mainly on the ground that such a limit roughly covered home-to-work travelling and the area in which railways were subject to particularly severe competition from other means of locomotion. But conditions had changed since 1876, and this exemption limit was one of the many weak points of the scheme. Mr. McKenna did not mention in his speech that there was to be a duty also on fares to foreign countries, but followed his usual practice of giving broad outlines and leaving Members to obtain from the White Paper the details—and, occasionally, even important features —of his proposals. The rate of duty applicable to journeys to places outside the British Isles was to be based on the class travelled, and not upon the amount paid : third class fares would pay 2s., second class 3s., and first class 4s. It was, perhaps, significant that the duty was not to apply to journeys commencing in Ireland, although it may be mentioned that the railway passenger duty, which has existed in varying forms since 1832, has never been applied to that country.

The proposed match duty, which was estimated to produce £2 millions in its first year, was to be levied at the rate of 3s. 4d. on home-made, and 3s. 6d. on imported, for every 10,000 matches. The difference between the two rates was intended not to protect the home manufacturer but merely to compensate him for the costs, direct and indirect, of Excise restrictions. The idea of a match tax was not new.

In the 'sixties, an import duty was in force for a few years, while in 1871, Lowe, borrowing the idea from the United States, included both excise and customs duties in his budget, but owing to the intense opposition aroused by this and other proposals, the budget had to be recast, and the suggested match tax disappeared. The new proposal, however, was not destined to meet a similar fate.

Speakers had on many occasions suggested to Mr. McKenna and his predecessor that mineral waters were a suitable object of taxation, and it was therefore not surprising to find the Chancellor in a time of need turning in this direction for additional revenue. He proposed a duty of 4d. a gallon on table waters prepared with sugar, or fermented, and 8d. a gallon on all other kinds, endeavouring in this way to differentiate roughly between the cheaper and the more expensive kinds. A duty at the rate of 4d. a gallon was to be levied also on cider and perry, and the total estimated revenue from these and table waters was £2,000,000.

Since its introduction in the previous budget, the excess profits duty had been the subject of much discussion, and suggestions had been made in different quarters that the rate should be increased from 50 per cent. to 60, 70, 80, 90, or even 95 per cent. Mr. McKenna proposed to increase the rate of the excess profits duty and the excess mineral rights duty to 60 per cent., and mentioned some of the factors which he had considered before arriving at a decision. A firm carrying on a large business far in excess of its usual operations could only do so in most cases by undertaking considerable responsibilities

and risks, and, furthermore, after the war, many British traders would be faced with the competition of neutrals who, free from war-swollen taxes, had been able to build up immense reserves. These were considerations, he maintained, which in the ultimate interests of the nation should not be overlooked, although it was equally necessary to consider the effect upon the public mind of great war fortunes while so many persons, in spite of decreased incomes, had to bear increased tax burdens. In this connection, it may be mentioned that on the highest scale of incomes, and where they were liable to excess profits duty, income-tax and super-tax, the three duties would together take 77 per cent. of the income.

The previous year, the tax was imposed only in respect of firms whose accounting period closed between August 4th, 1914, and June 30th, 1915, and in order to ensure equality, the old rate of 50 per cent. was to apply to all firms whose accounting period closed between July 1st, 1915, and August 4th, 1915, but all profits brought into account in a period closing after the latter date were to be subjected to the new rate of 60 per cent. It will be remembered that the dividing line of June 30th, 1915, was due to a desire to avoid any interference with the operation of the Munitions of War Act, and much thought had been given to the problem of dovetailing one Act into the other. The Chancellor announced that he had decided, after much anxious consideration, to extend the operation of the excess profits duty to controlled firms. Where the munitions levy payable to the Ministry of Munitions under the Munitions of War Act exceeded the amount of excess profits duty payable,

no further payment would be required, but, on the other hand, when the amount of the duty exceeded that of the levy payable to the Ministry, the difference between the duty and the levy would become payable, and would be collected by the Inland Revenue Department in the ordinary way.

A brief glance at the origin of the munitions levy may partially explain the hostility of the controlled firms to the budget proposals. The Munitions of War Act, which became operative on July 2nd, 1915, was part of a scheme to speed up the output of munitions, and was therefore mainly a labour, not a financial, measure. The Minister of Munitions was empowered to declare any establishment in which munitions were manufactured a controlled establishment and subject to the prescribed conditions as to the limitation of profits and the control of employees. Provision was made for the settlement of labour disputes, the right to strike being definitely restricted. Labour, surrendering some of its most cherished privileges, had demanded, in the negotiations which had taken place, that the profits of controlled establishments should be limited, and agreement had been reached on a figure of 20 per cent. above the average of the two pre-war financial years of the establishment. Profits in excess of that figure, subject to certain allowances, had to be paid under the Act as munitions levy to the Ministry of Munitions.

Under the budget proposals, controlled firms whose profits were at least 50 per cent. over the datum figure still retained the agreed 20 per cent. As profits fell below 50 per cent., however, the proportion of excess profits duty payable gradually increased, broadly

speaking, until when profits exceeded the datum figure by 20 per cent. or less, the duty amounted to the full 60 per cent. of the excess profits. The controlled firms, apparently without much justification, regarded this encroachment upon the stipulated figure of 20 per cent. as a breach of faith on the part of the Government.

The excess profits duty and the munitions levy together were expected to yield £86 millions during the current year, but this estimate was based on the amount which it was administratively possible to collect rather than on the amount actually payable; the current year's receipts would be increased by practically the whole of the amount due but uncollected in the previous financial year, but, on the other hand, it would be impossible to collect before March 31st the whole of the tax due in the current year.

Referring to the new import duties and the additional duties on tea and tobacco, which had been imposed the previous September, the Chancellor declared that as all these duties expired automatically on August 1st it would be necessary to introduce a second budget before July 31st, hardly a sufficient reason for so serious a suggestion. The Cabinet had decided against any further import duties, preferring to deal with the problem of imported luxuries by means of the scheme of prohibition then being extended by the Board of Trade. This decision was the result, to use Mr. McKenna's words, of the experience they had already gained, a phrase which may, or may not, have been intended to include the opposition of the free traders to the duties. The proposed use of import duties for controlling trade so as to benefit ourselves

and injure our enemies, which had been the subject of much discussion, was, he said, impracticable on any considerable scale owing to the lack of the necessary official staff.

Analyzing the financial position as it would be on March 31st, 1917, if the Estimates were realized, he said that our total indebtedness would then be £3,440 millions, and optimistically deducting the amount of loans to Allies and Dominions, he estimated the net debt at £2,640 millions, and the annual debt charge, including provision for a substantial sinking fund, at £145 millions. Adding £173 millions, the national expenditure excluding the debt charge in the last peace year, and £20 millions, a provisional estimate of the charge for pensions, he suggested that the total, £338 millions, represented the expenditure we should have to meet in 1917-18 on the assumption that the war ceased by the end of the financial year. Taking the revenue, exclusive of the excess profits duty and munitions levy, at the figure he had previously given, £423 millions, there remained a surplus of £85 millions. He admitted that these figures were only very approximate, as many of the relevant factors were incalculable, but he maintained that his calculations adequately proved that the increases in taxation were sufficient, not only to enable us to conduct the war with unabating vigour, but to ensure on the cessation of hostilities an ample margin for tax remission.

"We are fighting," he said, in conclusion, "not only with our incomparable Navy and our heroic Army, but with the whole financial and productive power of our people, which is being thrown into the

struggle on behalf of ourselves and our Allies. I have made no comparison of the financial position of this country with that of Germany. The ability and willingness of our people to bear the burden of taxation have established our national credit on an unshakable foundation. In the present year we are raising over £300 millions by new taxation imposed since the war, while Dr. Helfferich announces a doubtful increase of £24 millions. Civic courage is as important in its sphere as military courage, and we may justly claim, in this time of stress, that we have not been found wanting in either of these great virtues."

The increases in taxation did not receive such an unmixed welcome as had been accorded to Mr. McKenna's September budget: a few Members favoured still more heroic taxation, but others raised doubts as to the wisdom of any further considerable increase in the tax burden. After denouncing the idea of a special Finance Bill in July, which he pointed out could be easily avoided by the inclusion of the expiring duties in the main Bill, Mr. Lough, who could usually be relied on to discover some weak points in a Chancellor's armour, proceeded to criticize most of the budget in detail and the Government's war finance in general. He said that during the first few months of the war there had been no additional taxation whatever, and for the next six or seven months, taxes which were too few and too light, but the pendulum had swung too far in the other direction, and now the Government were making too many experiments and imposing too heavy a tax burden on the nation.

A feature of the debate was the concerted attack on the proposals by Irish Members. Mr. William

O'Brien, the first to enter the lists, protested that under the budget proposals, Ireland would be grossly overtaxed. While admitting that it was her bounden duty to assist, loyally and generously, in men and in money, in the prosecution of the war, he suggested that Ireland ought to be receiving subsidies and loans such as were being given to less needy Allies and Dominions, instead of helping to pay for them by ruinous taxes. Mr. Healy, continuing the attack, asserted that the injustice of taxation was accentuated by glaring inequalities in expenditure. Mr. Ginnell opposed, on many other grounds, the imposition of fresh burdens on Ireland, and emphasized the fallacious character of the argument that uniformity of the tax system in two countries necessarily implies equality of the tax burden, particularly when they differ fundamentally in economic conditions. Mr. Coote, an Ulster Member, showed a little of the other side of the picture, and, protesting against the tone of the other speeches, declared that Irishmen were quite able to pay the just and legitimate taxes imposed on the rest of the United Kingdom. The Chancellor's reply, which he reserved until the following day, was noticeably conciliatory in tone, no doubt owing to the delicate nature of the Irish problem at that time.

The proposed railway ticket tax was very coldly received. It was suggested that it would tend to draw the population into already overcrowded areas; that, as journeys to distant parts of the Kingdom would be taxed more than journeys to places abroad, it was a bonus on foreign travel; and that, as most of the railways were under Government control, more revenue could be obtained by methods less

objectionable than the proposed tax. Further objections were raised subsequently, both in the House and the Press, with the result that, a few days later, the Government decided to abandon the tax.

It appeared later that the Government intended to introduce three Finance Bills, one imposing the new duties, the main Finance Bill, and the further Bill in July mentioned in the budget speech. The increases of the existing taxes could be enforced under the Provisional Collection of Taxes Act, but new taxes are specifically excluded from the provisions of that Act, and their collection could not at that time be legally secured until the Bill imposing them had become law. As the Government could not expect to get the main Finance Bill through for several weeks, the inclusion in that Bill of the whole of the tax proposals would have meant a considerable loss of revenue, hence the decision to introduce a special Bill imposing the new duties, and, if possible, to take it through all its stages before the Easter adjournment.

The real reason for the proposal to have a third Finance Bill was a fear that the inclusion in the main Bill of the duties expiring in August, which included the much-discussed McKenna duties, might give rise to prolonged debate; and there was, moreover, the possibility that before the date of their expiration, the duties might become redundant owing to the prohibition of importation of the commodities in question. In view of the suspicion and hostility aroused by the idea of a third Finance Bill, the Chancellor decided later to include in the main Bill a clause renewing the duties in question, and the resulting feeling of relief probably explains in some

measure the passage of the clause with practically no debate.

The second reading of the Finance (New Duties) Bill, imposing the proposed duties on entertainments, railway fares, matches, table waters, cider and perry, was taken on April 10th, and reached the Committee stage two days later. The duty on entertainments did not meet with any serious opposition. Adverse comments were made on the apparently regressive character of the scale, but, in reply, Mr. McKenna stated that the tax was intended to reach that class which did not pay income-tax, yet still had money to spend on entertainments. A few concessions were yielded. The imposition of the duty was postponed for a fortnight, and exemption was granted in respect of entertainments for charitable, educational and certain other purposes.

The Government dropped the railway fare tax with considerable reluctance, as it involved a loss of three millions of revenue, but, as Mr. McKenna admitted, no other course was open to them, for the removal of all the undoubted hardships would have so mutilated the tax as to make its collection unprofitable.

The match tax appeared to be well received by the House, but it was not at first welcomed by the industry. Their objections, however, soon disappeared when the tax was seen to be inevitable. In order that the new duty should not press too heavily on those manufacturers—mainly in a small way of business—who made large boxes of matches, a lower rate was subsequently introduced for boxes containing more than 80 matches. As the result of representations made by the match manufacturers, a duty was

imposed in the later Finance Bill on mechanical lighters and tinder boxes, which were increasing in popularity owing to the scarcity and high price of matches.

The proposed duties on table waters, cider and perry were destined to undergo considerable amendment. It was originally intended that they should be collected by means of stamps affixed to each package, a method by which the medicine stamp duty has always been collected and which has been widely used in the United States, but the table water manufacturers objected, and suggested that the duty should be collected on the certified returns of the amounts manufactured, a system which was finally adopted. Various other concessions were granted; the imposition of the duties was postponed until May 1st, while a clause was accepted and subsequently embodied in the Finance Bill imposing a special low rate of 2d. a gallon on herb beer, which would otherwise have been subject to the 4d. rate.

The Finance (New Duties) Bill reached the report stage within a week of the second reading, and passing through all its remaining stages in both Houses without debate, received the royal assent on April 19th, 1916.

A problem which at this time was exercising the minds of the Government was that of the foreign exchanges. Various devices for the regulation of the exchanges, including the export of gold, the floating of the Anglo-French Loan, and the McKenna duties, had been tried, and for some months the Government had operated the scheme, mentioned in the budget speech, whereby American securities held here were bought for re-sale in America in connection with the

policy of exchange pegging. Securities were also accepted on loan, and used in New York as collateral security for obtaining credits.

The scheme had for a time been very successful, the supply of securities being sufficiently large to enable the Government not only to meet its liabilities but also, as we have already seen, to create a reserve fund over there. For some weeks, however, the amount of American stock offered to the Government had been rapidly dwindling, and it was decided, during the passage of the Finance Bill through the House, to impose, as an incentive to those who for various reasons were withholding securities, an additional penal income-tax of 2s. in the £ on all securities included in the special list published by the Treasury. Relief from this additional duty was obtainable by placing the securities at the disposal of the Treasury. When introducing the resolution, on May 29th, Mr. McKenna said that if the additional tax were not sufficiently powerful to induce the surrender of the required securities, he would propose the increase of the rate from 2s. to 5s., 10s., or, if need be, to 20s. in the £, but, fortunately, the need for such drastic action did not arise.

At the second reading of the main Finance Bill, the broader principles of the budget were sharply criticized by Mr. Hewins. After enlarging on an argument he had advanced in Committee of Ways and Means that so-called direct taxation was now affecting prices to the consumer, he suggested that direct taxation in general and the excess profits duty in particular were far too high, and maintained further that if no additional taxation had been proposed in the budget,

the Chancellor would have still had sufficient revenue for his requirements. He expressed disappointment that the budget had been framed as if there were no such thing as the British Empire, and declared that whether or not a tariff was immediately introduced, at the conclusion of the war, protection for our war-disorganized industries would be inevitable. It was imperative, he continued, that the Government should, in connection with the Finance Bill, make absolutely clear to the world, firstly, their attitude with regard to the Paris Conference, and, secondly, their intention to adopt the policy of Colonial Preference recommended by the Imperial Conference.

It was under the mandate of the Paris Conference of March to which Mr. Hewins referred that the Economic Conference of the Allies subsequently met at Paris in the following June, under the presidency of M. Clementel, the French Minister of Commerce, for the purpose " of giving practical expression to their solidarity of views and interests, and of proposing to their respective Governments the appropriate measures for realizing this solidarity." In brief, the struggle was to be extended to the economic sphere, and resolutions were adopted by the Conference recommending measures for the war period, transitory measures for the period of reconstruction, and permanent measures of mutual assistance and collaboration among the Allies.

By one of the strange accidents of Coalition, the duty of replying devolved on Mr. Chamberlain, and the humour of the situation was not lost upon the House. He expressed his agreement with many of Mr. Hewins' theories ; manufacturers had sacrificed

their private interests to the interests of the State, and could not with justice be left undefended at the cessation of the war, and all sections agreed, he thought, on the necessity for safeguarding pivotal industries. With the old shibboleths buried, he hoped and believed that in the work of reconstruction a considerable measure of agreement among the hitherto contending parties would be evolved. With reference to the Paris Economic Conference, he suggested that our declaration of policy should be made there, after consulting our Allies and considering their proposals, but he assured Mr. Hewins that our representatives would attend untrammelled by any rigid economic policy.

At the second reading, Mr. Hume Williams said that, in view of the increasing financial strain, he wished to press upon the attention of the Chancellor the subject of Premium Bonds ; these he defined as Government Bonds issued at a rate of interest lower than the normal prevailing rate, but carrying participation in half-yearly drawings, of which the object was to pay off the bonds at a premium. He outlined a scheme of £1 ten-year Exchequer Bonds bearing interest, tax-free, at the rate of $2\frac{1}{2}$ per cent., or half the existing rate for Government issues, and suggested that of the remaining $2\frac{1}{2}$ per cent., $1\frac{1}{2}$ per cent. should provide a fund to cover the periodical drawings, leaving a margin of 1 per cent. for other charges. The main point in favour of the scheme was, he argued, that it would induce the working classes to invest their savings in Government securities, a two-fold advantage in the troublous but inevitable post-war period of depression. Sir Charles Henry, supporting

the scheme, mentioned that it had received much support in the City and elsewhere, and expressed his inability to understand the opposition of the Government, or rather, of certain Members of the Government. He emphasized the need for working-class savings, and commented on the disappointing result of the War Savings Certificate scheme which, although eventually highly successful, had then yielded but a little over two millions.

Mr. Wardle, speaking against the scheme, said that the whole basis of civilization rests upon reducing chance to the smallest possible minimum, and, as a trade unionist, he had always endeavoured to persuade working men to eliminate, if necessary by insurance, the effects of chance. Mr. McKenna spoke definitely against the proposal. Although admitting that chance entered into every phase of life, and that a large amount of business could not be carried on without gambling in some form or another, he declared that gambling in itself was not a good thing, and decidedly not a suitable object for State encouragement. Passing to a more practical aspect of the subject, he suggested that the scheme would attract not investors but holders, who, if a more favourable gamble offered, would dispose of their bonds ; there would then be a constant dribble of the bonds on the market which, he said, somewhat hyperbolically, would affect Government credit. And, finally, he doubted, in spite of the various high estimates which had been put forward, whether much more money would be obtained than by the existing methods. The idea of Premium Bonds, although failing to meet with official approval, was not allowed to drop, and in

November of the following year a Select Committee was appointed to report on the question. In their report, the Committee, while admitting the existence of a considerable untapped source of investment which might be obtained by means of bonds with a speculative element, expressed doubts as to whether the amount of new money obtainable would justify the introduction of a scheme of such a contentious character.

When, on June 21st, the Finance Bill reached the Committee stage, the Chancellor appeared to be in a generous mood, and announced many important concessions. In addition to modifying the rate of income-tax on Army and Navy pay, he proposed to raise from £500 to £700 the income which a man might have and still claim the children's allowances, and to moderate the graduation of the tax on unearned incomes. In addition to these legislative changes, three administrative changes were to be made to mitigate the hardship, accentuated by the high rates of tax, suffered by persons with small incomes which happened to be taxed at the source.

Replying to criticisms of the high rates of income-tax, Mr. McKenna said that he realized, as fully as the critics, the inimical effect on trade, under ordinary circumstances, of a long-continued excessive rate of income-tax; he believed it would injure the energy and industry of the most progressive section of the people, for much of the income of one year became the capital of the next, and it was exactly that income which was earned by the most progressive and energetic brains of the country. To take a large proportion of the excess earnings each year would in

the long run seriously impair the energy and efficiency of our capital industries was his contention, for which he claimed general acceptance, but an interruption from the Labour benches proved that there was at least one dissentient. In a higher state of society, he continued, he was sure that one day man would reach the stage when he would work as readily for the State as for himself, but that day had not arrived, and although, during the war, patriotism might prove a more powerful incentive than personal gain, it would be a great mistake, in his opinion, to contemplate as permanent the existing high rate of income-tax.

Since 1853, relief had been granted in respect of insurance premiums, but, owing to the great increase in income-tax rates, this opportunity of legal evasion was being taken advantage of by an ever-increasing number of people. Certain companies were advertising specially prepared schemes of deferred annuities for short periods, which were obviously not insurance schemes but merely methods of avoiding income-tax. The Government's original proposals for putting a stop to the practice encountered considerable opposition and were withdrawn, but, eventually, after three or four discussions, and the recommittal of the Bill, a clause was added which, while not affecting existing policies except as regards super-tax, materially restricted the opportunities of tax evasion.

The hostility of the controlled firms to the application of the excess profits duty to their profits was voiced by many speakers, one of whom asserted that Mr. Lloyd George, at that time the Minister of Munitions, definitely disapproved of the Chancellor's proposals. It was then disclosed that since the

budget, Mr. Lloyd George, Mr. McKenna, Mr. Montagu, and Treasury officials had met and discussed the matter, with the result that the allowances of the Ministry of Munitions for depreciation and new capital were to be accepted for excess profits duty purposes, and certain other concessions were granted to the controlled firms. Mr. McKenna denied that there was any difference of opinion in the Cabinet concerning this question, and declared that the concessions had removed any objections Mr. Lloyd George might have had to the scheme.

At the Committee stage, Mr. McKenna proposed that the new duty of 56s. a hundredweight on cocoa, which had been in force since the day following the budget, should be reduced to 42s. A careful inquiry had satisfied him, he said, that the true relation between the three commodities was 4½d. a pound on cocoa, 4½d. on raw (and 6d. on roasted) coffee, and 1s. on tea. His figures were based on the respective quantities of tea, coffee and cocoa required to make a beverage of normal strength, and he expressed the hope that in all future alterations of the duties, these proportions would be maintained.

The increased duty on sugar met with the criticism customarily directed at increases in indirect taxation. Sir Alfred Mond, attacking the proposed increase, advanced the view that the burden would be borne by the weak and helpless, as the higher the wages workers receive, the better their chance of passing on the duties, and the lower the wages, the more defenceless they are. He asked whether it was reasonable, in view of the arbitrary character of the division between loans and taxes, to intensify the burden on a

large section of the people merely in order to avoid a slight increase in the debt.

The increases in the motor licence duties were abandoned, and in their stead was imposed a licence duty of 6d. per gallon on motor spirit used in private cars. This duty was collected by the Petrol Control Department of the Board of Trade, who, under the system of petrol rationing, issued permits to approved users for specified quantities upon payment of the relative licence duty. Permits were issued duty-free in respect of petrol for business vehicles, while medical practitioners and veterinary surgeons paid half the full rate. It may be mentioned that this licence duty, a direct tax, was distinct from the indirect tax of 6d. per gallon which was collected by the Customs and Excise Department, and which still remained in force.

The Estimates had been based on a daily expenditure of £5 millions, but for some time it had exceeded £6 millions, with the result that, by the middle of July, Mr. McKenna's borrowing powers were practically exhausted, and the necessity for expediting the passage of the Finance Bill became apparent. On July 17th, therefore, he moved that the third reading be taken immediately after the Bill had been reported as amended on recommittal. To take two stages of a Finance Bill in one day was a breach of Parliamentary practice to which many Members apparently strongly objected. Sir H. Dalziel pointed out that, as the Government had complete control of the time of the House, the necessity for any irregular procedure might easily have been averted. Sir Edward Carson strenuously opposed the motion.

" We are getting very sick of the kind of war speeches which the Right Honourable Gentleman and the Government have been accustomed to make for the past two years. Everything they want to do, or to keep back, they say ' It is a war occasion ' . . . the sooner they know that both the country and the House of Commons are waking up to this and wish them to preserve the externals of decency . . . in relation to the Rules of Order and Procedure in this House, the better." After the subsequent division, in which twenty-nine Members vainly signified their dissent, the last two stages of the Bill were soon completed. The Bill passed all stages in the Lords with but a few minutes' discussion, and within two days of its exit from the lower House, received the royal assent.

The outstanding features of this budget, the further considerable advance in the tax revenue and the increasing reliance placed on direct taxation, partially explain the distinct change which became apparent during the final stages of the financial debates. The increases in taxation imposed in Mr. McKenna's first budget had met with almost unanimous approval, and only one Member had definitely advocated less taxation and an increasing use of loans. Now, however, there was much criticism of the financial policy of the Government, who were accused of having been stampeded from a policy of under-taxation to harmful excess in the other direction. But much of this criticism was due to the general political situation which was becoming increasingly difficult.

MR. BONAR LAW'S BUDGETS

FIRST BUDGET, 1917-18.

May 2, 1917.

As 1916 drew on, it became more and more obvious that the Asquith Government was approaching its end. Questions of man power and food supplies, the submarine menace, the apparent stalemate in France, mismanagement in Mesopotamia, and the Roumanian disaster, under the limelight of a hostile Press, all contributed to the December crisis. On December 5th, Mr. Asquith, following Mr. Lloyd George's ultimatum and resignation, himself resigned. Mr. Bonar Law was invited, but failed, to form a Government, and advised the King to send for Mr. Lloyd George. The latter was more successful, and the first Lloyd George Coalition was soon in being. The Labour Party joined the Government, on the understanding, as Mr. Barnes tells us in his autobiography, that more Labour Members were to be included than there had been in the preceding Government. Many important posts were filled by Conservatives, and Mr. Bonar Law, who gave Mr. Lloyd George whole-hearted support in the difficult task of Cabinet-making, became Leader of the House of Commons, Chancellor of the Exchequer, and a member of the new War Cabinet.

It was impossible for one man to perform satisfactorily the duties of the three highly responsible posts held by Mr. Bonar Law, a fact which he himself realized and which had not a little influence on the character of his financial programme. The budget was not introduced until the second day of May. In a House which was noticeably less crowded than on previous similar occasions, and with but a couple of pages of notes to refresh his memory, Mr. Bonar Law spoke unhesitatingly for an hour, placing before the House in a business-like and unemotional manner figures of unprecedented magnitude.

The expenditure for the previous year had been estimated by Mr. McKenna at £1,825,380,000, but the actual expenditure had exceeded this by £373 millions, which was almost entirely due to the excess on votes of credit. The estimated amount of advances to Allies had been exceeded by £100 millions, the remainder of the excess having been expended on the enormously increased output of munitions. The total advances to the Allies since the commencement of the war now amounted to £828 millions, and a further £142 millions had been lent to the Dominions. In view of the long-drawn-out discussions in after years on the subject of inter-Allied debts, Mr. Bonar Law's remarks on the subject are of more than passing interest. " The British Government," he said, " from the first has considered that this was one war, in which the interests of all the Allies were alike, and that it was our duty, to the extent of our ability, to use our resources, financial or otherwise, in aid of our Allies in precisely the same way as if they were spent upon ourselves."

Turning to the preceding year's revenue, the Chancellor had a somewhat brighter story to relate. Receipts had exceeded the Estimate by over seventy millions. Inland Revenue showed an excess of £66 millions, income-tax and super-tax accounting for £10 millions, and the excess profits duty for £54 millions, most of which, however, was the result of a post-budget amendment permitting the payment of the duty in advance. On the other hand, no one was surprised to hear that, owing to the various war-time restrictions, Customs and Excise showed deficits in almost every branch, the two principal exceptions being tobacco and tea. The increase from stamps reflected considerably increased activity on the Stock Exchange and the more extensive use of cheques.

The actual issues from the Exchequer during the preceding year were £2,198 millions, and receipts were approximately one-fourth of that amount, leaving £1,625 millions to be met by borrowing. A part of the deficit was met by the receipts from the recently floated third great War Loan, details of which the Chancellor of the Exchequer related to the House. Including instalments falling due in the current year, subscriptions for the 5 per cent. War Loan in cash and surrendered Treasury Bills amounted to £966,048,000, while in addition there were conversions of $4\frac{1}{2}$ per cent. War Loan and Exchequer Bonds amounting to £1,104 millions. The figures for the 4 per cent. loan were respectively £23 millions and £29 millions. These loans had been issued in the previous January. The 5 per cent. loan was issued at 95, and was redeemable in 1947 or, at the Government's option, in or after 1929. The interest on

foreign holdings of this loan was exempt from British income-tax. The 4 per cent. (1929-42) loan was issued at the same time at par, interest in all cases being exempt from liability to British income-tax other than super-tax. Two further privileges given to investors were the provision of a specific sinking fund, and the acceptance under certain conditions of the stock in payment of death duties.

Mr. Bonar Law, turning to the Floating Debt, said that the position at the end of the year must be regarded as satisfactory. The total of Treasury Bills outstanding was £464 millions, or more than a hundred millions less than at the end of 1915-16. The War Savings Certificate scheme, although not immediately successful, was now giving grounds for great satisfaction. From its introduction by Mr. McKenna in February 1916, up to December, £55 millions had been obtained from this source, while during the first four months of 1917 the scheme had produced the useful amount of £46 millions. The total net addition to the National Debt during the preceding financial year amounted to £1,714 millions, and on March 31st, 1917, the debt stood at the then astounding figure of £3,854 millions (net).

The Chancellor of the Exchequer quoted approvingly his predecessor's declared policy that at the close of each financial year there should be sufficient revenue, excluding that from temporary sources, to provide for all post-war services and for a reasonable amount of debt redemption. He then gave figures purporting to show that, had the war ended on March 31st, revenue would have been sufficient not only to meet expenditure, including £154 millions for interest and

repayment of debt, but would have left a surplus of £59 millions. The proportion of the enormous expenditure which was being met by taxation should be, he suggested, a source of satisfaction, and was entirely unparalleled in the finances of any other belligerent nation. "Our total national expenditure during the war," he said, "has been £4,318 millions. Of this, £1,137 millions, or fully 26 per cent., was provided out of revenue." It may perhaps be mentioned that this statement was not strictly accurate, the figures given being the totals of the Exchequer receipts and Exchequer issues (including external advances) for the three preceding financial years, and thus included a period of peace, April to August 4th, 1914.

Referring to the fundamental problem of taxes versus loans, he declared that the burden of taxation was already heavy, and further taxation, whatever its form, would diminish the capital available at the end of the war and would thus handicap trade; yet, on the other hand, a huge National Debt would similarly burden trade and industry. What were the ideal proportions of taxes and of loans? Mr. Bonar Law decided on a middle course, and would have been content to leave taxation unchanged had the expansion of existing taxes sufficed to continue the policy followed by his predecessors. To do this, however, additional taxation was required, and he proposed to increase three existing taxes. No new taxes were proposed. Many ideas for restricting expenditure by means of taxes had been suggested, but they were all rejected, firstly and principally, because of the shortage of staff, and, secondly, because the resulting

disturbance and cost of collection would have been out of proportion to the benefits anticipated.

The entertainments duty was to be one source of additional revenue. Since its introduction the previous year it had produced £3 millions, or only three-fifths of the estimate, which, however, had been admittedly highly conjectural. No change was proposed in respect of admission charges not exceeding twopence, but above that figure the scale was stiffened; in addition, duty was to be levied on free tickets which hitherto had escaped the tax. With the pre-budget rates, the duty was estimated to produce £3,500,000 in the current year, and the new proposals would, it was anticipated, yield an additional million. The Chancellor said he fully realized the value of amusements to the public in war-time, and averred that the changes were proposed not in an attempt to restrict attendances but merely because he thought the tax could fairly bear the increase. The preceding year had not been a happy time for certain sections of the entertainments industry, and it was not therefore surprising that the new burdens proposed aroused considerable opposition on the part of the proprietors. Experience had taught those proprietors who were not already aware of the fact that the incidence of a so-called indirect tax is not necessarily solely on the "consumer."

An additional six millions was to be obtained from the tobacco duty, which was to be increased by a further 1s. 10d. per lb., the amount by which it had been increased eighteen months earlier. Mr. Bonar Law maintained that the increase "is justified by the simplest method of reasoning—that it is a revenue-

producing tax. Last year, in spite of the heavy addition, and in spite of the fact that a large proportion of the population are serving abroad where they get their tobacco, I am glad to say, without paying duty on it, there has been no falling off in consumption. That is in itself a justification from the revenue point of view of putting on an additional burden." In this connection it may be mentioned that the previous increase in the duty came into force in September, 1915, and was followed by a decline in consumption which, if not so great as had been anticipated, was certainly appreciable, although no further decline apparently took place in 1916-17. An additional justification for the increase put forward by the Chancellor was that tobacco was a luxury, but he admitted that there were few necessities which he himself would not rather do without. In view of what subsequently happened, it is interesting to note that 1s. 10d., the amount of the proposed increase, was claimed by him to be a figure which " as well as any other, and better than most, will enable the burden to be passed on to the consumer without the middleman getting more as his profit out of the additional taxation we propose."

The announcement that the excess profits duty was to be raised from 60 to 80 per cent. was greeted with cheers from some quarters of the House. Mr. Bonar Law, however, remarked that had it not been for the pressing need for increased revenue, he would have been glad to leave the rate unchanged. On the other hand, he maintained that although this duty was not free from anomalies, the necessary revenue could not be obtained by any other method which

on the whole would be fairer or less inimical to national interests. The increased rate was to apply from the preceding January 1st, but this caused no surprise as the Prime Minister had intimated in December that the rate would be raised. It was proposed also to merge the munitions levy in the excess profits duty. This merging of the two duties put an end to many anomalies, and also removed what was one of the most serious defects of the munitions levy, namely, that when profits of a controlled firm reached the statutory limit of 20 per cent., all monetary incentive disappeared. With the disappearance of the levy, the incentive—to the extent of 20 per cent. of the profits —would remain, and thus tend to increase production. Two concessions were proposed ; an addition of 3 per cent. was to be made to the percentage allowed on new capital invested during the war, while the differentiation in favour of private firms was to be increased by a further 1 per cent.

The Chancellor of the Exchequer dealt at some length with the shipping trade, the abnormal profits of which had been causing a good deal of comment. The Government, in order to bring the trade under control and to regulate its profits, had adopted the policy of requisitioning, and at that time 90 per cent. of all ships of 1,600 tons and upwards were either requisitioned or under notice of requisition. In addition, the rates of freight were under the control of the Shipping Controller. When the policy of requisitioning was first introduced, the Blue Book rates allowed a large margin of profit, but conditions rapidly changed, and now it was impossible under the requisitioning terms to make anything approaching

the pre-war rates of profit. Under the excess profits duty scheme, a trader was allowed within certain limits to balance his losses in any year against profits previously made and upon which he had paid duty; in brief, if a trader's profits fell below the pre-war level, he was repaid the amount of duty payable on an amount equal to the deficiency, subject to the proviso that the total of such repayments should not exceed the amount of duty already paid by him. Mr. Bonar Law contended that in view of the unduly large profits already made by shipowners, it would not be right to allow them to retain this privilege which would enable them to make up their profits practically to the pre-war standard out of taxes previously paid, and he therefore proposed that any trade or business deriving profits from shipping should be specifically excluded from the provision as to repayment.

The total expenditure for the current year was estimated at £2,290 millions, which represented a daily expenditure of £6,275,000 compared with an actual daily expenditure of £6,022,000 in 1916-17. Debt charges were estimated at £211,500,000, of which £41,500,000 was to provide for interest on debt to be incurred during the current year. Provision was made for Votes of Credit totalling £1,975 millions, the Army, Navy and Ministry of Munitions accounting for £1,438,500,000 of this huge total; the remainder consisted of miscellaneous war expenses and the provisional estimate in respect of loans to Dominions and Allies. Since the entry of the United States into the war a month earlier, our financial position—the seriousness of which at that time has probably never

been fully realized—had been eased in many directions, and it was expected that the Chancellor would be in a position to give particulars of definite offers of financial assistance from the American Government; he merely mentioned, however, that they would help us to the extent of their ability and that the amount of such assistance could not at the moment be definitely stated. This explained the provisional character of the estimates of External Advances. Allowing on the one hand for the possible help from America, and on the other for the increasing need of the Allies, he included under the head of Votes of Credit £400 millions, or £150 millions less than the amount of External Advances in the previous year, and expressed the hope that the estimated amount would not be required.

The estimated revenue for the current year was £639 millions, an increase of £65 millions over the Exchequer receipts for the previous year. Customs and Excise, in spite of the proposed increased duties, showed a decline, owing to the drastic war-time restrictions on consumption, but income-tax and super-tax were estimated to produce an additional £19 millions, and excess profits duty a further £60 millions. A fall was anticipated in every branch of non-tax revenue with the exception of Miscellaneous Revenue, the increase in which was more than accounted for by the war contribution of the Government of India. The latter had undertaken responsibility for a contribution of a hundred millions. The amount they would be able to raise by loan could only be estimated, but they accepted responsibility for the balance, and the total amount expected

from this source during the current year was £13 millions.

The balance sheet for the year showed an excess of expenditure over revenue of £1,652 millions to be provided by loans, but, as Mr. Bonar Law pointed out, considerably more than a quarter of the total expenditure was still being met by taxation. Calculations had been prepared showing the estimated position at the end of the current year on a precisely similar basis to those for the preceding year which he had dealt with earlier, and the favourable balance which at the end of the preceding year had been £59 millions would, it was estimated, be reduced to £2 millions. This was much more favourable, he said, than he had anticipated when he had begun to prepare the budget, and he suggested that, all things considered, it was a result with which the House had every reason to be satisfied.

The budget speech ended, as it began, with an entire absence of rhetoric. "I have kept my word," said Mr. Bonar Law, "and tried to confine myself entirely to a plain statement, and I am satisfied that the result I have just given to the House justifies me in the statement which I made in my first speech as Chancellor of the Exchequer, that though we could not go on indefinitely on this scale of expenditure, yet it is certain that it will not be the want of money which will prevent our victory, and that we shall be able to go on from this point of view longer than our enemies."

Mr. McKenna congratulated his successor on the lucidity of the budget speech, and then proceeded to point out that the Chancellor of the Exchequer was

in a much happier position than his predecessors had been, since one of their main problems, that of paying for our immense imports and of meeting other foreign commitments, had been eased by the appearance of the United States as an ally. Their immense resources were now being used in the great cause, he continued, but in no field would the beneficial effects of American co-operation, great as they were, be so certain and so immediate as in the field of finance. Having suggested that some of the estimates erred on the side of caution, and hinted that the increase in the rate of excess profits duty might conceivably result in a reduced yield, he concluded with a reference to the unparalleled financial burden now being borne, and being borne in a manner without precedent in the history of this or any other country.

Sir Joseph Walton congratulated Mr. Bonar Law on floating the loan without having to offer a higher rate than 5 per cent., but pointed out that in spite of its relative success, the new money obtained from the loan had been insufficient to pay off the Treasury Bills outstanding. With an expenditure of six millions a day, he said, we should soon have another thousand millions of Treasury Bills unless there was another loan. The House generally was, he continued, uneasy regarding the absence of effective checks on expenditure, and the omission of any reference in the budget speech to the need for rigid economy or to any scheme for reducing expenditure to an absolute minimum was greatly to be regretted.

Later in the evening, Mr. Stanley Baldwin, then a Junior Lord of the Treasury, deputising for the absent Financial Secretary, announced that two or three

proposals of some importance had been omitted from the Chancellor's speech. Officers and men of the merchant service and fishing fleets were to have the same relief from death duties as had been previously granted in the case of the Navy and Army, the children's allowance was to be extended to adopted children, and the existing rebate of one-quarter of certain liquor licence duties was, in view of further restrictions, to be increased to three-quarters. The admitted hardship arising from double taxation was to be to some extent removed, so far as excess profits duty was concerned. A clause was inserted in the Bill authorizing the Government to enter into an agreement with the Government of any British possession where a duty on excess profits was in force ; only the higher of the two duties was to be collected, and this was to be apportioned between the two governments in proportion to the respective amounts. As regards income-tax, however, Mr. Baldwin maintained that it was impossible to go further than the concession of the preceding year. In support of this, he mentioned that the Imperial Conference, only a few days before, had unanimously admitted the impossibility during the war of arriving at any solution which would be fair to both this country and the Dominions. A lengthy debate on this problem took place at a later stage, but the Chancellor refused to agree to any further concession.

In the course of the debate on the following day, Mr. Sidney Arnold laid stress upon the need for increasing the proportion of revenue from taxation. He gave figures to show that a further thirty millions were required from taxation in order to achieve the

avowed aim of Mr. Bonar Law, namely, to obtain from permanent taxation sufficient to make the estimated post-war revenue at least equal to expenditure. How ought the necessary additional revenue to be obtained? Indirect taxes were already too high, he argued, for not all of the working classes were better off, while some had been driven by the high cost of living below subsistence level. The alternative to taxes on necessities was higher direct taxation and increased taxation of luxuries, and he proceeded to adumbrate proposals for obtaining sufficient additional revenue to permit the abolition of the duties on tea and sugar and to provide the further thirty millions which he calculated were necessary to place our finances on a sound basis. He suggested doubling the entertainments duty, increasing the tobacco duty, imposing a tax on titles, and putting into operation the taxation of land values; the remainder of his scheme consisted of raising the death duties and the tax on mining royalties, increasing the general rate of income-tax to 6s. 3d. in the £, lowering the super-tax limit to £1,500 a year, and increasing the super-tax scale on the bigger incomes.

Major Godfrey Collins, rising later, continued the attack on what he considered the low proportion of expenditure met by taxation, and contrasted the attitude of Mr. Bonar Law with the courage and boldness exhibited by Mr. McKenna. Major Collins, who had on previous occasions called attention to the need for greater control by the House over the rapidly rising expenditure, announced the intention of himself and the Members associated with him of pressing the Government to allot a day specially to discuss the

subject. The movement was gaining increasing support, and on July 6th the desired debate took place. Major Collins moved " That this House is of opinion, in view of the continued growth of expenditure, taxation, and debt, that a Committee be appointed, consisting of Members of this House, with power to review all national expenditure, examine Ministers and officials, and report to the House." The motion stood in the name of a large number of Members of all shades of opinion. The Government refused to accept the motion, but agreed to the setting up of a Select Committee, which was shortly appointed, with wide terms of reference, under the chairmanship of Mr. Herbert Samuel, and in due time presented many valuable reports destined to have important results on national finance.

Mr. Bonar Law, replying to the critics who had complained of the inadequacy of his tax proposals, asserted that there would be no hesitation, if the need arose, to take a half or even three-quarters of all incomes where it could be done without encroaching on a minimum of subsistence. But, said he, you cannot impose crushing taxation, destroying in the process everyone's faith, and, at the same time, obtain huge loans. The ideal was to hit the proper mean, and he claimed that he and his predecessor had in this direction been fairly successful.

To the surprise of many Members, the Chancellor of the Exchequer then proceeded to outline proposals for additional taxation on dogs. A Committee which had been appointed, in view of the food shortage, to consider the consumption of foodstuffs by dogs, had reported the previous day, and, amongst other

suggestions, had recommended the imposition of restrictive taxation, hence the introduction of taxation proposals subsequent to the budget. The proposed dog surtax had a mixed reception, and was subsequently dropped.

Most of the speakers at the second reading attacked what was described as the unjustifiable discrimination against the shipping trade in the excess profits duty proposals. Mr. Leif Jones, who denounced the offending clause as a regrettable breach of faith on the part of the Government and as unjustly penalising an industry that was vital to national security, made full use of a quotation from J. S. Mill and of its employment by Mr. Bonar Law during the debate in 1909 on the Land Taxes: "A peculiar tax on the income of any class not balanced by taxes on the income of other classes is a violation of justice and amounts to partial confiscation." Mr. Holt, speaking later, alleged that the penal treatment of the shipping trade was due to a discreditable bargain made in December when the Labour Ministers were persuaded to join the Government.

Mr. Snowden, in the course of an interesting speech, contended that the Chancellor's policy of raising revenue sufficient to meet the ordinary services of the country and the interest on the Debt did not go far enough, for it meant the creation of an enormous Debt, the interest on which was continuously increasing. When the Government wanted more money, they raised the rate of interest, he said, but when they wanted life, they took it: we had conscription for military service but no conscription of wealth. We were not raising anything like sufficient by taxation,

he continued, and by neglecting to raise larger sums during the war, the Chancellor was missing opportunities which would not recur. On the other hand, he criticized the proposed increases in the entertainments and tobacco duties on the ground that they would fall most heavily on the classes least able to bear them. He described the entertainments duty as a rather silly, pettifogging, unproductive, irritating sort of tax, an opinion which he re-echoed seven years later when, in the first Labour budget, he materially reduced this duty. He next complained that the post-budget increase in the price of tobacco was far greater than was justified by the increase in the tax, a matter which later gave rise to serious trouble and resulted in a modification of the rate.

Mr. Bonar Law, referring to the shipping question, which he designated as the crux of the debate, said that the profits of shipowners in the preceding three years, after allowing for the payment of excess profits duty, had equalled the whole of their capital. The Government had, in the national interests, taken over the ships, undertaking that the owners should receive fair remuneration, but, he averred, considering the huge profits made, that undertaking would not have been fulfilled if the shipowners had been guaranteed their pre-war rate of profits, approximately 15 per cent. No fair-minded man, he declared, could in the circumstances consider the proposed arrangement unfair to the shipowners.

At the Committee stage, certain of the budget proposals met with considerable opposition. The changes in the entertainments duty were attacked from more than one part of the House, some critics

protesting that the additional burden would fall principally upon the proprietors, while others urged with equal vehemence that it would be borne mainly by the poorer classes. The Chancellor, adopting a conciliatory attitude, expressed regret that he was unable to accept the suggestion that admissions not exceeding sixpence should continue as before to pay only one penny, as four-fifths of the receipts were obtained from those seats. He intimated his willingness, however, to make the twopenny rate begin at 4d. instead of at 5d., and to reduce materially the rates on tickets exceeding 7s. 6d. In addition, the introduction of the increased rates was postponed from July 1st to October 1st, a time of the year when the entertainments industry is more prosperous and better able to bear increased duties, while the proposed tax on free tickets, the incidence of which would have been borne mainly by the proprietors, was dropped.

The proposal to increase the rebate on liquor licence duties from one to three-quarters was denounced by Mr. C. Roberts as a gratuitous and uncalled for gift to the liquor trade. He argued—with some warmth and a good deal of reason—that retail liquor licences were taxes on the monopoly value of the trade, taxes not on output but on profits, and then quoted figures to show that the profits of the brewing industry as a whole had not decreased, but had actually increased, during the war. Mr. Baldwin refused to accept Mr. Roberts' view, and although admitting that these licence duties were based on annual value and thus in a way roughly proportional to profits, contended that profits *qua* profits did not enter into the question. After pointing out that the interests

and profits of the brewing trade were not necessarily related to those of liquor retailers, he maintained that the original rebate of one-quarter, granted on account of restriction of hours, was now entirely inadequate to compensate licence-holders for the limitation of hours and, what was still more serious, the reduction in their sales owing to the restricted output of intoxicating liquors.

The budget increase of 1s. 10d. per lb. in the tobacco duty had been followed by an increase in the retail price of most tobaccos of 2d. per ounce. This gave rise to a good deal of dissatisfaction, particularly amongst the working classes, on the price of whose tobacco this meant generally an increase of 40 per cent., and, in June, the Tobacco Control Board was appointed to inquire into production costs and profits and to control prices. At the Committee stage, the Chancellor proposed that the budget increase of 1s. 10d. per lb. should be reduced as from July 16th to 11d. The retail price of the cheapest tobaccos was then fixed at only one penny per ounce higher than the pre-budget figure, but the price of cigarettes and better-class tobaccos was increased by larger amounts. In spite of these advances, however, consumption increased until deliveries were restricted by the Controller to the 1916 level.

The second day in Committee was devoted almost entirely to the excess profits duty. Mr. Bonar Law, in the course of the debate, admitted the possibility of income tax evasion in the case of farmers' profits, but administrative limitations, he said, rendered it inexpedient, if not impossible, to do more

than was actually being done. He then announced certain concessions, including one to mitigate the hardship on shipowners, which he put forward in the hope—a fruitless one—that discussion on that question would be thereby shortened. The ensuing debate on the shipping trade clause consisted largely of repetition of the arguments used at earlier stages of the Bill, but one interesting point emerged. The Government were accused, in depriving shipowners of their right to claim allowance for losses, of definitely breaking a pledge given by the late Chancellor of the Exchequer. Mr. Bonar Law replied with the obvious argument that no Chancellor could bind the decision of the House of Commons in the following year, but Mr. McKenna went a step further. When he was Chancellor, he said, he gave two pledges, firstly, to take excess profits duty over the whole period, thus giving an allowance for loss, and, secondly, that anyone who built or ordered a new ship during the war should be entitled at the end of the war to write down that ship to its post-war value, but those pledges were embodied in an Act of Parliament. Thereby, he declared, the House approved the action of Ministers, taking over the responsibility for their pledges, and from that moment the special ministerial responsibility ceased.

Another problem which gave rise in Committee to a good deal of discussion was the taxation of co-operative societies, which, although practically exempt from income-tax except in respect of property under Schedule A, were liable to excess profits duty. When this duty was introduced by Mr. McKenna in 1915, he specifically extended it to societies registered under

the Industrial and Provident Societies Acts, the method of computation of profits having been previously submitted to, and approved by the co-operative societies. Under this method, the excess profits were deemed to be the amount by which the profits per member for the accounting period exceeded the pre-war profits per member, multiplied by the number of members in the accounting period. The rise in prices was naturally followed by increased turnover—measured in money—and this in turn by higher profits, with the result that the co-operative societies were being called upon to pay heavy amounts in respect of excess profits duty.

A clause was moved—and negatived—exempting from the duty societies registered under the Industrial and Provident Acts. Mr. Goldstone, using the familiar argument that the co-operative dividend was really nothing but a rebate on prices, and was not a profit in any real sense of the word, maintained that as there was no profit there could be no excess profit, and, therefore, the application of the excess profits duty to co-operative societies was neither logical nor just. Mr. McKenna explained to the House how in 1915 he felt that, as he was imposing an excess profits tax on other traders, he ought to impose a fair tax on co-operative societies, but the subsequent rise in prices transferred what would otherwise have been an equitable arrangement into what, in his opinion, was an unfair burden on the societies. He therefore asked Mr. Bonar Law to reconsider the question, with the result that at the report stage, an amendment was made which, in the Chancellor's words, put the arrangement back precisely where the co-operative

societies on the one hand and the late Chancellor of the Exchequer on the other said it was intended to be at the time the arrangement was made. Briefly, excess profits duty was to continue to be charged on profits from trade with non-members; as regards transactions with members it was to be payable only when the rate per £ of the dividend exceeded the pre-war rate.

When, in 1915, the excess profits duty was extended to include excess mineral rights, a special method of computation was adopted. Duty was assessed, broadly, upon the difference between the pre-war and the current tonnage rates, multiplied by the number of tons worked in the current accounting period. The extraction of minerals, with a consequent reduction in the capital value of the mine, is obviously in a different category from the creation of profits, say, in manufacture, and the recognition of this fact explains the special method of duty assessment. This method, however, had the disadvantage of making it possible for persons with actually reduced incomes from mineral wealth, providing the tonnage rate was higher, to be liable to duty. This grievance was ventilated by various speakers, with the result that, at the report stage, an amendment was moved by Mr. Baldwin remedying the matter.

The Bill was read for the third time on July 17th, after a short debate which was restricted mainly to the problems of the shipping trade and co-operative societies. It passed the Lords almost without discussion, and on August 2nd became the Finance Act, 1917.

In this budget, Mr. Bonar Law chose the easy path. Contrary to expectation, he imposed no new taxes,

while fresh taxation, which was less than had been generally anticipated, was confined to increases in three existing duties, each of which was likely to be generally acceptable to the House. The increases in the entertainments and tobacco duties could hardly be described as taxes on necessities or be regarded as imposing unbearable burdens on any particular class, while the increase in the excess profits duty was certain of a less unfavourable reception than the alternative of a higher income-tax. Indeed, in view of the protests of press and public against the exorbitant gains of the elusive profiteer, the excess profits duty increase was sure of a welcome in many quarters. Yet, in spite of these auspicious conditions, very considerable concessions were granted. The entertainments duty increases were modified and postponed, the addition to the tobacco duty was halved, and the yield of the excess profits duty was materially reduced by various amendments, the loss to the Exchequer amounting in the aggregate to several millions. The new taxation in the budget was estimated to produce in the current year £26 millions, which, even before the subsequent reductions, compared unfavourably with the proposals of the two preceding budgets. The new taxation, inadequate as it may seem compared with the addition to the Debt Charge and to total expenditure, by no means shows, however, the total extent of the increase in tax revenue, for there were automatic increases—largely the fruit of Mr. McKenna's proposals—of £110 millions in the revenue estimates compared with those of the previous year.

Expenditure, as we have seen, was advancing by leaps and bounds, but revenue was limping slowly

behind. The increasing disparity between expenditure and revenue was due partially to rapidly advancing prices, and was intensified by the fact that the rise in the price level had an immediate effect on expenditure but was not immediately reflected, except in certain relatively unimportant cases, in increased tax revenue. Such a " lag " may obviously have important results when a considerable proportion of revenue is obtained from taxes based not on current income but on that of some earlier year or years. Still more unresponsive to changes in the price level is a system of indirect taxation which, like ours, consists mainly of specific duties and which, therefore, in this respect compares unfavourably with a system of *ad valorem* duties. As we have mentioned, the growth of expenditure was giving rise to serious concern amongst influential sections of the House, but attention appeared to be focussed mainly on questions of parliamentary and administrative control. Few seemed to realize the importance of the many problems involved in the rapidly rising price level, which not only had serious consequences at the time but was destined to affect British public finance for many decades to come.

MR. BONAR LAW'S SECOND BUDGET, 1918-19.

April 22, 1918.

VICTORY seemed further away than ever. Before the Americans could put their full strength into the war, many things had happened. The British campaign

in Flanders in 1917, though costly in men and material, had brought no substantial gains. The need for greater co-ordination in the Allies' efforts was emphasized by the Italian disaster at Caporetto in October, 1917, and its repercussions in France, with the result that the Supreme War Council of the chief Allied Ministers was subsequently appointed. The defection of Russia, followed by the Brest-Litovsk treaty, had freed the German forces operating on the Russian front, and now, on the Western front, the Germans had an undoubted superiority in numbers. They decided on a final big offensive, well knowing that, with the American Army rapidly expanding, the time to strike was now or never. The British forces had not recovered from the great losses of the previous year, and although time was on our side, the position was undoubtedly serious. On March 21st, 1918, the long expected attack was launched, and continued until April 30th, during which time our casualties amounted to the appalling figure of 350,000, and the offensive power of our Army was temporarily broken. Under such circumstances, it is not surprising that press and people were ready for any financial sacrifices, when, on April 22nd, Mr. Bonar Law opened his second and last budget.

After a few introductory words, Mr. Bonar Law plunged into details of the previous year's finances. Treasury Bills had been sold at a lower rate than had been expected, and this had been the main cause of a saving of £24 millions in the Debt Charge, but this gain was entirely overshadowed by an excess on Votes of Credit amounting to £427 millions. The position was not so bad, however, as the system of

accounts would lead one at first to suppose, for £89 millions consisted of additional loans to Allies—not a valuable asset but perhaps not entirely a dead loss—and £139 millions represented foodstuffs and other commodities purchased by the Government for re-sale.

The financial demands of our Allies had increased considerably during the previous year, and in addition to the £500 millions we had advanced to them, the United States Government had advanced them a further £450 millions. In reality, our Allies were being financed almost entirely by the United States, as we ourselves had received loans from America practically equal in amount to those we had advanced to the Allies. Mr. Bonar Law referred to the undesirability of borrowing with one hand and lending with the other, a proceeding which eventually cost us dear, and announced that he was endeavouring to arrange with the United States Government that they should make their loans direct to the Allies.

The revenue side of the previous year's accounts was, on the surface, far more satisfactory. Every head showed an excess over the estimates. Excess profits duty, income-tax, and super-tax together had yielded £36 millions more than had been anticipated, while estate duties provided an unexpected surplus of two and a half millions. Customs and Excise, the yield from which was influenced by many and diverse factors, showed a modest excess of a little more than £4 millions; the receipts from the two duties which had been increased the previous year were more than satisfactory, for in spite of the substantial concessions made, the tobacco duty

practically reached the budget estimate, while the entertainments tax showed an excess of half a million. There was, in addition, a large surplus under the head of Miscellaneous Revenue, due to the fact that of India's war contribution of £100 millions, she had been able to raise during the previous year £35 millions, which was £25 millions more than had been anticipated.

Once again, therefore, revenue had considerably exceeded the budget estimate, but this was by no means so satisfactory a feature as might at first sight appear, for it was largely due to two partially related phenomena, the continuous rise in the price level and in the amount of Government expenditure. Mr. Bonar Law viewed it with mixed feelings. "It is, of course, satisfactory as showing the prosperity for the time being of our trade and industry," he said, "but I do not wish the House to attach too much importance to it, for I have said more than once in this House that so long as money is being raised by borrowing, to whatever extent it may be, there must be at least apparent prosperity, and the real test of our financial position will come when this borrowing ceases and we have to fall back on ordinary methods."

One minor anomaly of the system of accounts was to be removed. We had been supplying sterling credit to the Canadian Government to cover their purchases in Europe, while they had reciprocated by giving us credit in dollars for our commitments in Canada. Hitherto, these items had appeared in full on both sides of our accounts, thus unduly magnifying expenditure and revenue although making no real difference to the net result, but in future only the net balance was to be shown.

Summing up the results of the previous year's finances, the Chancellor referred to the principle, formally adopted by his predecessor, that permanent revenue should be sufficient to meet the estimated post-war expenditure, and said that the favourable balance had proved to be £7 millions greater than he had estimated in the budget, and had thus belied the gloomy predictions of hostile critics in the previous year's budget debates.

Turning to the expenditure for the current year, Mr. Bonar Law pointed out the difficulties of presenting accurate estimates. In normal times, he said, estimates were based on specific demands, but under the existing war conditions, the demands of the fighting forces were limited only by the possible supplies, and these, he maintained, were a factor which was absolutely incalculable. He ventured the opinion, however, that as we had nearly reached the limits of maximum production in this country, the probability was that the year's estimates would not be greatly exceeded. He estimated the total expenditure for the current year at £2,972 millions, which meant a daily expenditure exceeding eight million pounds. The Army, Navy, Munitions and Air Services accounted for £1,861 millions, while External Advances were estimated at £350 millions, loans to the Allies being put at £300 millions pending a possible agreement with the United States on the question of Allied loans. Of the Debt Charge estimate of £315 millions, £53 millions was in respect of debt to be incurred during the current year.

The Chancellor then took the unusual course of dealing with the balance sheet for the year, before

giving details of new taxation. The total revenue for the year was estimated at £842 millions, included in which was new taxation amounting to £68 millions, and the deficit to be met by borrowing amounted therefore to the unprecedented figure of £2,130 millions. The extent of the deficit may be realized from the fact that it was more than three times the total pre-war debt, and, nominally, was not far short of the total income of the nation in 1914.

At this point he paused to consider the financial position as it would be at the end of the current year —in his opinion the most important problem in a war budget—and declared that however people might differ on other financial questions, no one would dispute the necessity of continuing the policy of ensuring that permanent revenue should be sufficient to meet all normal expenditure, including the Debt Charge. Working from a pre-war expenditure, exclusive of Debt Charges, of £173 millions, and making allowance for increased expenses including £50 millions for war pensions, he estimated the national expenditure (exclusive of Debt Charges) for 1919-20, on a peace basis, at £270 millions, a figure which provided an easy target for critics in the subsequent debates.

In his calculations of the post-war Debt Charges, he was noticeably less optimistic than he had been the previous year. The National Debt was estimated to reach, by March 31st, 1919, the immense total of £7,980 millions, compared with an actual figure of £5,872 millions on March 31st, 1918. In previous similar calculations, he had taken credit for the total advances to Allies and Dominions, but he now revised his calculations more in accordance with the facts.

He would not admit that the loans to Russia should be regarded as a bad debt, although he admitted it was necessary to deal with the national debts in the same way as a business firm, and to make allowance for the state of affairs in Russia and for the possibility that the Allies would be unable to pay loan interest immediately the war ceased. At the end of the next year, the total debt due by the Allies (including Russia) would amount to £1,632 millions, and he proposed to write off 50 per cent., namely, £816 millions. After deducting in full the debt of £244 millions due from the Dominions, and £64 millions due from India, there remained £6,856 millions, which he considered might be regarded as the net amount of the debt for which we should be liable. On the basis of $5\frac{1}{2}$ per cent. for the combined rate of interest and sinking fund, this would entail an annual Debt Charge of £380 millions.

This figure, added to what he termed the normal expenditure, made a total of £650 millions to be paid out of revenue, but on the basis of existing taxation, there would be available at the end of the year only £540 millions. If the principle he adopted from his predecessor were to be followed, new taxation yielding in a full year £110 millions was required. Mr. Bonar Law announced that he intended to propose new taxation which in a full year would amount to £114 millions, apart from a proposed tax on luxuries which for various reasons he refrained from including in his estimates. According to his calculations, he would thus provide for a favourable balance of £4 millions, and he averred that the position was even better than appeared from the figures, which had

been calculated on a conservative basis, no allowance having been made for the excess profits duty or for the increase of income-tax yield which might be expected when the former duty disappeared. A comparison of these figures with the actual budgets of subsequent years provides an illuminating illustration of the difficulties and dangers which beset the path of the financial prophet in war-time.

The need, to which we have referred before, of a proper capital account in the national system of accounts was becoming more and more obvious. In this budget the Chancellor of the Exchequer made some attempt to mitigate the defect by giving particulars of what he called the undoubted assets of the nation, a term which he restricted to those assets which not only could, but would be realized. These he divided into three classes : the first class consisted of balances with our financial agents, of debts other than loans due from our Allies and Dominions in respect of goods or services, and of stocks of foodstuffs and other commodities bought for re-sale. Their value, on a conservative basis, was placed at £375 millions. The second class of assets consisted of land, securities, buildings and ships, which he valued at £97 millions. The third class consisted of stores of various kinds, but the selling value of these was in many cases very uncertain, and Mr. Bonar Law reckoned them at £100 millions, which was less than one-third of the cost price. These values gave a total of £572 millions for the assets as on March 31st, 1918, but owing to the continuous increase in stocks, it was calculated they would rise by a further hundred millions during the next twelve months.

There was a still more important item, said Mr. Bonar Law, although it could not, in strictness, be termed an asset. The excess profits duty, on the safe assumption that it would be continued until the end of the accounting period after peace was declared, would in subsequent years yield a total net revenue of at least £500 millions. This, he continued, would make a total of £1,172 millions from assets and arrears of taxation, which more than counterbalanced the total amount for which he had taken credit, under the head of Loans to Allies, in the calculations of post-war expenditure referred to in an earlier part of his speech.

Before disclosing the details of new taxation, the Chancellor devoted a few moments to a statement of the principles which he had followed in the preparation of his budget. Every sensible man, he said, would agree that it was our duty to obtain from taxation as much of current expenditure as could be borne by the nation without weakening the prosecution of the war; difference of opinion existed not as to the principle but only as to its application. He went on to say that he, for one, was strongly of the opinion, and had throughout acted upon it, that we must not forget that not only had the war to be financed, but that we must think of the position afterwards; and it was, therefore, absolutely essential that taxation should not be levied on such a scale as to cripple every industry and financial institution, and thus make it impossible to obtain by voluntary means the money necessary for the prosecution of the war.

During the four years ending March 31st, 1918, which included four months of peace, the proportion

of gross expenditure met by revenue was 26·3 per cent., and the corresponding figure for 1917-18 alone was practically the same. Mr. Bonar Law pointed out that the percentage for the current year, if the estimates were realized, would be 28·3, and for the five years ended March 31st, 1919, it would be 26·9, while the total war revenue raised up to the end of the previous year was £1,044 millions, and by the end of the current year would attain the substantial figure of £1,686 millions. The term War Revenue was taken to mean the amount by which the actual revenue of any year exceeded £200 millions, which was assumed to be the normal peace revenue. He declared that these figures were an amazing testimony to the financial strength of this country, and, by way of contrast, gave details of the financial position of Germany, who was, in his opinion, fast approaching bankruptcy.

The first increase announced by the Chancellor was in Post Office rates. He stated that the minimum rate on letters at home and to the United States and our Dominions would be raised from 1d. to 1½d., and that the ½d. rate on postcards would be doubled, proposals which, it will be remembered, had been recommended by the Retrenchment Committee in 1915. He gave no further details, referring those interested to the White Paper which would be available in the morning, and which showed that although the minimum charge for letters would be increased, modifications in the scale meant a reduction in other cases. There was to be a change also in the parcels rates, which had not been mentioned in the budget speech, the total additional revenue from all the

changes being estimated at £4 millions in a full year. Mr. Herbert Samuel, an ex-Postmaster-General, subsequently criticized the proposals on the ground that a considerable profit was already derived from the Post Office, and the new charges would therefore be sheer taxation. This attitude was supported by the Post Office estimates appearing on the White Paper, which showed an apparent profit of £9 millions, but it subsequently came out that for some reason or another expenditure had been shown on a pre-war basis. The Postmaster-General, Mr. Illingworth, assured the Committee that in reality the new rates would merely counterbalance the additional Post Office expenditure, which included £6 millions for the staff war bonus alone. The proposed extra charge, so far as letters to the troops were concerned, was subsequently abandoned; the remainder of the proposals were carried out by executive action, except the new postcard and inland book packet rates which were embodied in the Post Office Act, 1918.

The next proposal of the Chancellor of the Exchequer was that the stamp on a cheque should in future be twopence instead of a penny, a change which would yield only £750,000, but which gave rise to more criticism than the whole of the remaining budget proposals. At the time of the Boer War, Sir Michael Hicks-Beach had made a similar proposal which, owing mainly to the opposition of the banks, was withdrawn, and heartened no doubt by this precedent, the critics attacked Mr. Bonar Law's proposal at every stage, apparently being hopeful of success until the last moment. But the Chancellor refused to yield an inch.

He proposed no change in the rate of excess profits duty, although it had been urged in some quarters that the existing rate of 80 per cent. was inadequate. The official view was that any further increase in the rate would not be accompanied by an increased yield, but might possibly be followed by a decline in revenue. Steps were to be taken, however, to prevent a method of evasion which was being practised. Goods which, if sold in the normal course of business, would have given rise to excess profits, were being sold either by selling the whole business or in winding it up. There was a strong feeling that the proposal should be made retrospective, but the Chancellor decided that, apart from the general objections to retrospective legislation, there were in the present case overwhelming reasons against adopting such a course.

The budget brought important changes in the income-tax. The standard rate was to be raised from 5s. to 6s., which would produce in the current year an additional £11,250,000, but in a full year this sum would be increased to £41,400,000, the difference being largely due to the system of payment by instalments, which was now to be extended to duty payable on property chargeable under Schedule A. No change was proposed in the rate on incomes not exceeding £500. Mr. Bonar Law explained that he would not have felt justified in exempting this class but for the fact that they would have to pay their share in the increases in indirect taxation. The rate on the service pay of soldiers and sailors was to remain unaltered, while with regard to the vexed question of double income-tax within the Empire, he proposed to extend the system adopted

by Mr. McKenna in 1916 when the rate was increased from 3s. 6d. to 5s. 0d. Taxpayers concerned would still pay income-tax at the rate of only 3s. 6d., provided that the Dominion rate was not less than 2s. 6d. In those cases where the latter rate was less than 2s. 6d., the British rate would be adjusted so that the total of the two rates should not be less than 6s. 0d.

The existing allowance of £25 in respect of children under 16 years of age, which was allowed only when the income did not exceed £700, was to be extended to incomes up to £800. A more important and costly concession was the granting of a similar allowance of £25 in respect of a wife, and any dependent relative incapacitated by old age or infirmity. This was a further step, if only a short one, in the direction of bringing the income-tax into closer relation with ability to pay. It will be remembered that a proposal to grant a wife's allowance had, two years earlier, been very coldly received by the Treasury. But the increasing burden of taxation was rapidly transforming many questions which had hitherto been deemed to be of mainly academic interest into practical problems the solution of which could no longer be deferred.

Changes were also proposed in the super-tax. The maximum rate was to be raised from 3s. 6d. to 4s. 6d., and the exemption limit reduced from £3,000 to £2,500. Under the budget proposals, the income-tax and super-tax together would amount to a very considerable proportion of the larger incomes. On an income of £2,750, the new rates meant an average charge of 6s. 4d. in the £; on £10,000 an average of 8s. 4½d.; on £50,000, 10s. 1d., and on larger incomes

the average rate would gradually approach the limit of 10s. 6d. in the £.

A very popular proposal was one which aimed at bringing farmers' income-tax assessments into closer relation with their profits. The prevailing high prices of foodstuffs, together with other factors, had given rise to a widespread feeling that farmers were making extraordinarily high profits, and although there were some exceptions, there can be no doubt that, under the existing system of assessing them upon the annual rent, many were paying considerably less income-tax than their profits would have justified. In future, farmers who declined to exercise their option of submitting proper accounts and being assessed under Schedule D on their actual profits, would be assumed to be making profits not, as hitherto, merely equivalent to their rent, but equal to double that figure. This meant that farmers would pay an additional £2½ millions in the current year and £5,300,000 in a full year. Mr. Bonar Law admitted that he would have preferred to make all of them pay, like other classes, on their actual profits, but this solution of the problem—theoretically desirable and equitable—was rejected on the grounds that nine out of ten farmers kept no accounts, and such an innovation would have cast a further burden on a depleted and already seriously overworked Revenue staff.

Additional revenue was to be obtained from the spirits and beer duties. The increase in the spirits duty from 14s. 9d. to 30s. per proof gallon was estimated to produce £10½ millions, while the doubling of the beer duty, though only producing an additional £9,700,000 in the current year, would subsequently

bring in an extra £15 millions annually. The previous year had been a very prosperous period for many sections of the Trade, and the Chancellor declared that had he foreseen this state of things, the duties would have been increased in the previous budget. He claimed that the increase in the duties would not inflict undue hardship on any section of the Trade, and that the new retail prices, fixed by himself and the Food Controller in consultation, would allow fair profits to be made. On the other hand, he reminded the House that owing to differences in the character and conditions of businesses, it was impossible to fix a figure which would equalize profits, but the excess profits duty would secure for the Exchequer a large share of the gains of those firms who made abnormal profits. It is noteworthy that these heavy additions to the beer and spirits duties, which were subsequently described in some quarters as bold and courageous, went through with little or no opposition. At that time, liquor supplies were scarce and demand so inelastic that the new rates, high though they were, by no means reached the limit of productivity, but factors other than mere revenue yield had to be considered. One such factor was the psychological effect upon the consumer, as the Government had discovered in the previous year when increasing the tobacco duty, while on more than one occasion during the war had the consumer of alcoholic liquor made himself heard.

This year, tobacco was once again the subject of the Chancellor's unwelcome attentions. In spite of his experience the previous year, he proposed to increase the duty from 6s. 5d. to 8s. 2d. per lb., and

declared that consumption, which despite increased prices and taxation was above pre-war level, clearly showed that tobacco could stand additional taxation. The amount of the increase had been decided in consultation with the Tobacco Controller. The trade had made representations to the Controller that owing to higher production costs, it was necessary to raise retail prices by a penny an ounce. Post-budget prices were to be advanced by twopence an ounce, but Mr. Bonar Law declared that as there would have been an increase in controlled prices of one penny in any case, and as the duty would be raised by about $1\frac{1}{3}$d., approximately one-third of a penny an ounce would be borne by the trade. His reasoning was unconvincing; it was based upon two assumptions, firstly, that production costs fully justified an increase in retail prices of a penny an ounce, which was at least debatable, and, secondly, that the moisture content of tobacco when duty is charged is identical with that at the time of sale, which was incorrect. Conditions in 1918 were different from those of the previous year, and the increased duty gave rise to little criticism, while consumption, instead of declining, showed a substantial increase.

The next proposal was a 50 per cent. increase in the match duty. This had been suggested by the manufacturers themselves, a paradox for which there was a very simple explanation. Matches, like most commodities in general use, were under a Controller, and the controlled price of the popular box was $\frac{3}{4}$d., but the trade had produced evidence showing that at this price production was unprofitable. The smallest practicable increase, one farthing per box, would have

meant profits greater than the Controller would have agreed to, hence the suggestion of the trade that the balance should be absorbed in increased duty.

The long list of duties to be increased ended with that on sugar, which was to be advanced by 11s. 8d. per cwt., thus yielding in a full year an additional thirteen millions. The pre-budget controlled price was $5\frac{3}{4}$d. per lb., which with the increase in the duty of $1\frac{1}{4}$d. per lb., would be advanced to 7d. Mr. Bonar Law evidently foresaw that this large increase on a commodity of everyday consumption would meet with considerable criticism, and endeavoured to show that the burden on the consumer would not be serious. The ration of sugar, he said, was $\frac{1}{2}$ lb. per week, therefore the burden upon the consumer would be $1\frac{1}{4}$d. per fortnight, but he omitted to mention that the domestic ration accounted for little more than one-half of the total amount of sugar consumed. His next points were that additions to indirect taxation were absolutely necessary and that, considering the prices of other commodities, sugar would still be sold at a reasonable price. He suggested finally that it was necessary to remember that the bread subsidy amounted to more than the whole of the additional indirect taxation proposed in the budget. The increased sugar duty gave rise to a good deal of criticism, but the Chancellor of the Exchequer stood his ground. Replying to various critics in Committee, he said that the budget must be taken as a whole, and declared that the exemption of incomes under £500 from increased income-tax was justifiable only because he was able, by means of indirect taxation, to get something out of the classes thus exempted.

The final tax proposal was the much discussed luxury tax. Mr. Bonar Law had desired to introduce such a tax the previous year, but he had been advised that the practical difficulties would be so great that it would not be worth while proceeding with it. The need for additional revenue, however, had become more and more pressing, and this, coupled with the introduction of a luxury tax in France, resulted in the decision to include in the budget, proposals for a similar tax here. The French tax was tripartite ; there was, firstly, a tax on articles such as jewellery, which were regarded as luxuries irrespective of price ; there was, secondly, a tax on articles such as clothing, which were regarded as luxuries only when the price exceeded a certain limit, and, thirdly, a tax on hotels and luxury establishments generally. Mr. Bonar Law proposed to adopt the general principles of the French tax, but with a different rate. The French rate was 10 per cent., but they had also a turnover tax, and the Chancellor explained that as he did not intend to adopt the latter, the luxury tax would be imposed at a higher rate, namely, twopence in the shilling or $16\frac{2}{3}$ per cent. The duty of drawing up the schedules of luxuries was delegated, on his suggestion, to a Select Committee.

When the Bill reached the Committee stage, objections were raised to imposing a luxury duty before the schedules of dutiable articles had been prepared, and it was suggested that the luxury tax clause should be deferred until the Select Committee had reported. After some discussion, during which it was further suggested that a separate Bill should be introduced, the Chancellor agreed to the clause being

negatived, but emphatically declared that this was only a question of method and would not be allowed to interfere with the introduction of the duty at the earliest possible moment.

During the Recess, the preliminary steps necessary for the introduction of a Bill to impose the duty were taken, but on October 17th, Mr. Bonar Law stated that, at that late stage of the session, he did not feel justified in proceeding with the Bill and had therefore decided, with great reluctance, to drop it. He had, he said, every hope that the valuable work and report of the Select Committee would not be wasted and that a luxury tax would be included in the next year's budget. His hopes, however, were not realized.

Having at last completed his long list of additional taxation, Mr. Bonar Law brought his speech to a close. "I recognize," he said, "as fully as any Member of the House how very heavy is the burden which I am asking the country to bear. I can only say to the House of Commons that in considering the proposals of this budget I hope that they will try to look upon it as a whole and to realize that I have attempted at least to balance fairly the taxation between the different classes who are called upon to bear it. I am convinced that the House of Commons will begin the examination of these proposals with a full realization of the necessity of the additional taxation and with the desire to support the Government in the methods which they have taken to secure it. I am perfectly certain that the country as a whole will bear this heavy additional burden in the same spirit in which they submitted to sacrifices far more heavy than anything measured by mere money value."

The budget, with its many new burdens, met with a very favourable reception in the House, and in some quarters there seemed to be even a feeling of relief that the new imposts were no greater than they were. Much of the ensuing discussion turned on the question of taxes versus loans.

The debate was opened by Mr. McKenna, who, after congratulating the Chancellor of the Exchequer on his policy of raising sufficient revenue to provide a margin for tax reduction when peace returned, agreed that taxation should not be so heavy as to cripple industry. But, he asked, how could taxation injure industry at a time like the present when practically every important industry was controlled ? Excessive rates of income-tax, he said, might prevent the creation of reserves and new capital, but with that limitation, income-tax was not injurious to business in time of war, while, by restricting wasteful private expenditure, it was helpful to the nation, and for that reason he would have been willing to see a further addition to income-tax and super-tax. He expressed himself in entire agreement, however, with the Chancellor's opinion that, when peace came, more harm than good would be done by crippling the development of industry with excessive rates of income-tax and super-tax. Passing to the problem of inter-Allied loans, he threw out the suggestion that we should advance to our Allies the money required to pay for goods purchased by the Allies in Great Britain ; that the United States should advance to the Allies, including ourselves, the means of payment for their purchases in the United States ; but that for all goods purchased in other foreign countries

—whether by us or the other Allies—the United States should make the necessary advances to us or the other Allies direct. His contention was that as we had from the beginning of the war borne the burden of financing the Allies, we might now reasonably ask the United States to take over the task.

Mr. McKenna was followed by Mr. J. H. Thomas, the well-known Labour leader, who deprecated the lack of boldness shown in the budget, because, said he, the House owed a duty to the men at the front, and nothing would be so likely to discourage the forces than the knowledge that while they were fighting on an all too meagre pittance, there was being piled up a huge debt the burden of which they would be required to bear on their return. Complaining of the heavy burden imposed on the working classes by the increases in indirect taxation and by an income-tax exemption limit of £130, which was only equivalent to a pre-war income of £65, he declared that additional revenue could have been obtained with far more justice to all concerned, and without interference with industry or business, by increasing the death duties.

Mr. Peto, voicing what was probably the general opinion of the House, disagreed with Mr. Thomas' view that an inadequate proportion of war costs was being met by taxation, and declared that a revenue which was 27 per cent. of war expenditure was a satisfactory figure on which not only the Chancellor, but also the country in general and the taxpayer in particular, ought to be congratulated.

Sir J. D. Rees went further and declared that the Chancellor of the Exchequer was to be congratulated

not only on the equal distribution of the tax burden, but also on having resisted "the clamour to which he has been exposed to increase taxation and to raise more by taxes and less by debt." He suggested that those who criticized Mr. Bonar Law in this direction had misrepresented, perhaps unwittingly, the financial policy pursued during the Napoleonic Wars, and pointed out that it then took twenty years of war before there was a percentage increase in total taxation comparable with that attained since 1914, a point which had been emphasized in a *Times* leading article on the previous Saturday. Referring to the suggested increase of the death duties, he humorously remarked that they were already so high that a prudent man must needs avoid them by postponing his death until he could die with less disastrous results to his family. Alluding to the heavy increases in the beer and spirits duties, he put forward the suggestion that the prohibition of the spirits traffic in Russia had contributed quite as much as the faults of the Romanoffs to the bringing about of the Revolution.

The debate was resumed the following day when, in the course of a long speech, Mr. Herbert Samuel discussed the question of Government expenditure, a subject with which, as Chairman of the year-old Select Committee on National Expenditure, he was particularly well qualified to deal. He maintained that the increase in the Army and Navy, and in the output of munitions, was in no way commensurate with the rise of expenditure, while in spite of the defection of Russia, whom we had largely financed, and the entry of the United States, loans to the Allies the previous year had exceeded the budget

estimate by £89 millions. The colossal increase in expenditure he attributed in some measure to the increase in prices, which he said was due in no small degree to factors over which the Government had some measure of control. In his opinion, inflation of credits was one cause, while another was profiteering —on the part of both employers and employed— which the Government might by determined measures have limited. Continuing, he said there had been an " all-round deficiency of financial control," and he appealed to the House to make continuous efforts to restrict extravagance. Effective control, he concluded, was impossible so long as the existing method continued of concentrating all the functions of government in the hands of six or seven men, upon whose shoulders there was thus placed a burden entirely beyond human powers.

Replying to these criticisms, Mr. Baldwin, who was now Joint Financial Secretary to the Treasury but was at the beginning of the war in business and had thus had the opportunity of viewing the matter from both sides, said that Government extravagance blossomed forth after the creation of the Ministry of Munitions. It was, he suggested, easy to be wise after the event, but, as regards munitions, we had been absolutely unprepared for war, and in obtaining the vast and immediate increase in war material so vitally necessary, a certain amount of waste was unavoidable. There was undoubtedly a good deal to be said for the contention that, with time of paramount importance, the only way to develop the munitions industry on an unprecedented scale was by liberal outpourings of public money, both to employers

and employed. Patriotism, although a highly potent force, would of itself have been insufficient, while, on the other hand, questions of cost become, in certain times and circumstances, of merely secondary importance. Unfortunately, however, the repercussions of the policy of increasing output regardless of cost were soon felt, owing to the inter-dependence of economic phenomena, throughout the whole national life, and many of our economic troubles could be traced to this source.

In a long and able speech, Mr. Sydney Arnold put the case for a capital levy as a preferable alternative to crushing taxes on income for meeting war liabilities. He proposed two levies, one as soon as possible, and the second to follow two years later, with a scale similar to that of the death duties but with somewhat steeper graduation. He suggested an exemption limit of £1,000, a limit which would probably prove in practice to be too low. Under his scheme, a total capital of £5,000 would pay $4\frac{1}{2}$ per cent., or £225, at each levy, £25,000 would be charged $7\frac{1}{2}$ per cent., and £60,000 would pay $12\frac{1}{2}$ per cent. Mr. Arnold calculated that the total yield of the two levies would amount to £6,000 millions, on the basis of an average rate of $12\frac{1}{2}$ per cent. for each levy and a "taxable capital" of £24,000 millions, which, incidentally, was probably a large over-estimate. He dealt at some length with the main objections which had been advanced against a levy, and in conclusion claimed not only that it was practicable, equitable, and economically sound, but also that, accompanied as it would be with a material reduction of the income-tax, it was preferable to any alternative scheme which

could be propounded for the reduction of the unprecedented debt burden.

Mr. Arnold's speech did not give rise to any considerable amount of discussion in the House, although the subject was well ventilated in the Press from the end of 1917 onwards. It will be remembered that in 1915 Mr. Snowden adumbrated a somewhat similar scheme which, although having the same exemption minimum of £1,000, was based on lower rates and was estimated to produce only £500 millions. The idea of a capital levy for the redemption of debt was, however, by no means a modern one. No less an authority than Ricardo had, a hundred years earlier, advocated both in the House and elsewhere a levy on capital for the same purpose, and the idea was even older than Ricardo, for a similar proposal was made to the House in the time of Queen Anne.

There was a very small attendance when the second reading was taken on May 14th. Mr. McKenna criticized the proposed luxury tax and the additional impost on cheques, and then proceeded to examine the general financial position. As is well known, the Exchequer receipts vary very considerably month by month throughout the financial year; during the first nine months, revenue comes in comparatively slowly. Mr. McKenna, working on the assumption that in the first nine months of the financial year only three-fifths of the estimated revenue would be received, showed that during this period, expenditure would amount to £2,250 millions against receipts of only £500 millions, thus leaving the Chancellor with the difficult task of finding £1,750 millions. Ways and Means Advances amounted to £276 millions,

outstanding Treasury Bills to £958 millions, and War Expenditure Certificates to £23 millions, totalling £1,257 millions of short-dated debt, all maturing within the year, and it was obvious that no substantial increase could be made in the short-term borrowing. Even assuming that £500 millions—approximately the previous year's figure—could be borrowed abroad, the Chancellor was faced with the problem of obtaining in this country a further £1,250 millions, most of which would have to come from longer dated maturities.

For various reasons, another War Loan was for the time being undesirable, if not impracticable, but Mr. Bonar Law had for a long time held the opinion—in which the experts concurred—that the best method of obtaining long-term money was by week to week borrowing. National War Bonds (first series) had been on sale since the previous October, and had brought in considerably more than six hundred millions of new money. Four classes of bonds were issued, all at par. There were three classes offered at 5 per cent., repayable respectively in 1922 at 102, in 1924 at 103, and in 1927 at 105, while the fourth class consisted of 4 per cents., income-tax compounded, repayable at par in 1927. Various conversion and other privileges were attached to the bonds. A second series maturing somewhat later were put on sale in March, 1918. Two other series were issued subsequently. Prior to the budget, the sale of War Bonds had begun to decline, so that on the whole the outlook was not encouraging, but Mr. Bonar Law stated that a temporary falling off had been anticipated, and asserted that the financial position gave no cause for

serious concern, an attitude which events proved to be justified.

Mr. Snowden's contribution to the debate was, as usual, original and thought-provoking. He criticized the luxury tax, not only on the ground that it would be impossible to administer it economically or with fairness and equity, but also on a matter of principle. There were, he maintained, two sources only from which taxation could be obtained, namely, income or capital, and any tax which was not a direct tax on one or the other was an indirect method of taxation, and consequently unjust in its incidence. He urged that revenue should be obtained from one tax only—presumably an income-tax—and declared that taxes on particular forms of luxury were "amateurish, childish, pettifogging, ineffective ways" of raising revenue, but they appealed to the popular fancy, and that, in his opinion, explained why the Chancellor had proposed the luxury tax. This advocacy, under existing conditions, of a single tax was surprising from a person of Mr. Snowden's wide knowledge and experience, but it was apparently only a temporary lapse, as earlier and subsequent utterances showed that he clearly realized the limitations of a single tax on income. He next criticized Mr. Bonar Law's lack of courage, and also that of his predecessors, Mr. Lloyd George and Mr. McKenna, maintaining that during their reign at the Treasury, the country's capacity to bear taxation was as high as in 1918, a statement which requires a good deal of qualification. He expressed strong disapproval, however, of the claim of other Labour Members that the income-tax limit of exemption (£130) should be raised, and held that,

subject to a minimum income sufficient to provide the necessities of a healthy life, working people ought to contribute to the National Exchequer in proportion to their means. Nothing, he concluded, would be more inimical to the national interests than that a large section of the electorate should be exempt from the financial effects of policies for which they were indirectly responsible.

Little modification was made in the Bill, which occupied only two days in Committee. Slight amendments were made in the rates of entertainments' duty, of value to the industry but costing little to the revenue. Income-tax relief in respect of a wife was extended to the female relative of a widower residing with him and having charge of his children, while the child relief was extended to persons with incomes from £800 to £1,000, for any number of children exceeding two. The latter amendment, apparently less logical and more arbitrary than the former, was claimed to have the merit of " being some encouragement to have a reasonable British family of a more old-fashioned kind than those which are so commonly prevalent at the present time."

A somewhat similar motive prompted the proposal of Sir Hamar Greenwood that a man, living with his wife and with children under twenty-one years of age, should be assessed for income-tax by dividing his income into equal shares, each share being deemed to be the income of the husband, wife or child, and the tax assessed accordingly. He reminded the Committee that the population problem was by no means a new one, and had been a favourite topic of discussion in Sparta and Rome. Quoting from the

Daily Telegraph, he said, "Males in the ancient city of Sparta who remained unmarried, after a certain age, were regarded as poor citizens, and various penalties were inflicted upon them. While they were still young they were debarred from watching the games of the maidens; and they had periodically to march in the depth of winter, with the scantiest of clothing or none at all, round the market-place, chanting a song directed against themselves, and confessing the justice of their punishment." The Chancellor admitted having sympathy with the object of the resolution, but pointed out that it would mean the total exemption of a man with an income of £1,000 and a wife and six children. "I am inclined," he said, "for this year to recommend the adoption of the other method suggested, namely, that in Sparta. It would cost the Treasury less, and might have a better effect."

The Bill was read for the third time in the Commons on June 21st, after a short debate. This year the Finance Bill was not destined to get through the Upper House without discussion. When Lord Hylton moved that the Bill be read a second time, Lord Emmott rose and expressed regret at the practice of allowing Finance Bills to pass entirely *sub silentio*; there had been in the past as there would be no doubt in the future great financial authorities in the House, such as the late Lord St. Aldwyn or the late Lord Goschen, and he felt sure that both the House and the country would desire to hear them on the year's finance. He then proceeded to deal at some length with Germany's financial position compared with our own. Even accepting the figures published by the

German Government, which he characterized as dishonest, make-believe finance, he maintained, supporting his contention with a mass of facts and figures, that the German position compared very unfavourably with our own, but he warned the House against drawing unduly optimistic conclusions from the comparison. If the war, he concluded, went on much longer, he would regard our financial position with a good deal of apprehension, but, if he were a German, he would regard the future of Germany with absolute terror.

Lord Hylton, thanking the previous speaker for the information he had imparted, commented on the fact that the Press paid little attention to speeches in that House, and expressed the hope that they would devote to Lord Emmott's speech the space which its importance deserved. He also assured the House that he would bring before the Treasury forthwith the suggestion that the facts and figures given by the noble Lord should be used for propaganda abroad.

The Bill passed through the subsequent stages without discussion, and on July 31st, 1918, received the royal assent.

This budget met with a reception which was almost unanimously favourable, except from a small section, inside and outside the House, who considered that taxation ought to be increased to a much greater extent. There were at first sight substantial grounds for the general satisfaction. Excluding the latest entrant into the fray, we were obtaining from taxation a much greater proportion of war costs than any other belligerent, while, on the surface, the increase in revenue from £200 millions to over £800 millions

in four years might be—as it was—regarded as a four-fold increase, and as a cause for further satisfaction. It is unnecessary to point out that, when allowance has been made for the rise in the price level, the apparent increase is very materially reduced (see p. 394).

This budget differed in many material respects from that of the previous year, which had made few changes, and which, with an estimated deficit of £1,652 millions, had provided for only an additional £26 millions of tax revenue. This year, practically every possible avenue, with the notable exception of death duties, was explored, and new taxation and postal rates were imposed which, apart from the still-born luxury tax, were estimated to produce £68 millions in the current year, and the substantial figure of £114 millions in a full year. Without disparaging Mr. Bonar Law's budget, it may be mentioned that —as readers have doubtless noticed—the increase in the current year's revenue was practically forced upon him by the increase in the Debt Charges in conjunction with the policy, formally adopted by Mr. McKenna, of ensuring that estimated post-war revenue should equal estimated post-war expenditure.

The apparent lack of interest displayed in the Bill's passage through the House, the absence of serious opposition, and the minor character of the concessions wrung from the Chancellor, may all be attributed, directly or indirectly, to the military situation. There was little public interest at the time in Parliamentary proceedings, while certain sections of the Press showed a decided hostility towards many forms of Parliamentary activity, particularly such as were

considered might have an inimical effect on the prosecution of the war, and this no doubt had a tendency to restrict discussion in the House.

Fortunately, the year which had opened so dismally brought with it peace, or at all events the cessation of hostilities. The huge expenditure estimates, totalling £2,972 millions, were destined never to be realized, the actual Exchequer issues being less than in the previous financial year. Although expenditure had thus touched high-water mark, the process of contraction, beyond a certain point, was of necessity gradual. On the other hand, taxation, as we shall see, continued its upward flight for some time to come.

MR. AUSTEN CHAMBERLAIN'S BUDGETS.

THIRD BUDGET, 1919-20.

April 30, 1919.

On the eleventh of November, 1918, after more than four years of war, the guns ceased firing and the bells began to ring. When the first feelings of relief, thankfulness and elation had subsided, the problems of peace emerged as no less formidable than those of war. It was natural, perhaps, that under the spell of victory, some leaders should proclaim and the people accept the promise of an earthly paradise; it was inevitable that disillusionment would be the lot of both leaders and people. "By what process," asks Mr. Churchill, "could the slaughter of ten million men and the destruction of one-third of the entire savings of the greatest nations of the world have ushered in a Golden Age?" An impossible task was set to a finance minister who was called upon to reconcile such a dream with a national debt of nearly eight thousand millions and an estimated deficit of two or three hundred millions.

Long before the truth of the situation had been fully realized, a good deal had happened. The Armistice had scarcely been concluded before the Government decided on a General Election. The existing Parliament had been elected in December,

1910, and under the Parliament Act of the following year would have automatically come to an end in 1915, but on five successive occasions it granted itself a new lease of life. All semblance of representing the electorate had disappeared, not merely on account of the passage of time but also because of the Representation of the People Act which, in February, 1918, had added thirteen millions to the existing electorate of eight millions. This Act, in addition to enfranchising approximately six million women over thirty years of age, restricted plural voting, removed the poor relief disqualification, and redistributed the constituencies on a population basis which increased the number of seats from 670 to 707.

Mr. Lloyd George and Mr. Bonar Law, who had worked hand in hand since 1915, decided in favour of continuing the existing form of Coalition Government, and on November 22nd issued a joint manifesto to the electorate, subsequently issuing the " Coalition Coupon " to candidates who could or would make the necessary declaration of political faith, but Mr. Asquith, with his body of Independent Liberals nicknamed the Wee Frees, and the Labour Party—with one or two dissentient voices—resolved to fight the election on the old party lines. The election was a striking victory for the holders of the " Coupon," and more particularly for the Conservative Coalitionists. In the new House, there were 502 supporters of the Coalition, consisting of 359 Unionists, 133 Liberals, and 10 National Democrats, while there were 63 Labour representatives, 23 Independent Unionists, 28 Independent Liberals, and 7 Nationalists. Seventy-three Sinn Fein Members were elected but never took

their seats. A remarkable feature of the election was the number of well-known members who failed to secure re-election. Mr. Asquith, Mr. McKenna, Mr. Herbert Samuel, Sir John Simon, and Mr. Walter Runciman found themselves in the company of Mr. Ramsay MacDonald, Mr. Philip Snowden, and Mr. Henderson outside the new House. The Labour Party, owing to the political tangle, became the official Opposition under the leadership of Mr. Adamson.

The above-mentioned joint manifesto of Mr. Lloyd George and Mr. Bonar Law to the electors is, in the light of subsequent events, of peculiar interest, and as it was the subject of a good deal of comment in the budget debates, we cannot do better than quote its principal clauses.

"The unity of the nation," it said, "which has been the great secret of our strength in war, must not be relaxed, if the many anxious problems which the war has bequeathed to us are to be handled with the insight, courage and promptitude which the times demand. As a preliminary to the solution of these problems it is essential that a fresh Parliament should be summoned, possessed of the authority which a General Election alone can give it, to make the peace of Europe and to deal with the difficult transitional period which will follow the cessation of hostilities. . . . We appeal, then, to every section of the electorate, without distinction of party, to support the Coalition Government in the execution of a policy devised in the interest of no particular class or section, but, so far as our light serves us, for the furtherance of the general good.

Our first task must be to conclude a just and lasting peace. . . . The care of the soldiers and sailors . . . who return to civil life is a primary obligation of patriotism.

. . . The war has given a fresh impetus to agriculture. This must not be allowed to expire."

On the question of Fiscal Policy, with which we are more immediately concerned, the manifesto declared that :

"It will be the fundamental object of the Coalition to promote the unity and development of our Empire and of the nations of which it is composed ; to preserve for them the position and influence and authority which they have gained by their sacrifices and efforts in the cause of human liberty and progress ; and to bring into being such conditions of living for the inhabitants of the British Isles as will secure plenty and opportunity to all.

Until the country has returned to normal industrial conditions, it would be premature to prescribe a fiscal policy intended for permanence. We must endeavour to reduce the war debt in such a manner as may inflict the least injury to industry and credit. The country will need all the food, all the raw materials and all the credit which it can obtain, and fresh taxes ought not to be imposed on food or upon the raw materials of our industry. At the same time a preference will be given to our Colonies upon existing duties and upon any duties which, for our own purposes, may be subsequently imposed. One of the lessons which has been clearly taught us by the war is the danger to the nation of being dependent upon other countries for vital supplies on which the life of the nation may depend. It is the intention, therefore, of the Government to preserve and sustain, where necessary, these key industries in the way which experience and examination may prove to be best adapted for the purpose. If production is to be maintained at the highest limit at home, security must be given against the unfair competition to which our industries may be subjected by the dumping of goods produced abroad and sold in our market below the actual cost of production."

In addition, the signatories declared themselves in favour of the reduction of military forces as speedily as expedient, of immediate steps to secure employment for the workers, of the removal of all inequalities of the law as between men and women, and of a

reformed Second Chamber. Finally, their programme included the gradual development of responsible government in India, and the exploration of all possible paths towards peace in Ireland.

In Mr. Lloyd George's new Government, Mr. Bonar Law became Lord Privy Seal and Leader of the House of Commons, while the post of Chancellor of the Exchequer fell to Mr. Austen Chamberlain, with Mr. Stanley Baldwin—destined in a few years to fill the highest office in the State—as Joint Financial Secretary to the Treasury.

On April 30th, 1919, Mr. Chamberlain delivered his budget speech to a crowded House. It was the third budget for which he had been responsible, but fourteen years had elapsed since he was last Chancellor of the Exchequer, and during that time momentous changes had taken place. The post of Chancellor of the Exchequer was at no time a sinecure, as he himself declared at the opening of his speech, and now, with all the trials and troubles, political, financial and social, which are the inevitable consequences of a world-wide war, he found himself faced with a House and people whose war-time spirit of sacrifice was evaporating and who were demanding from an impoverished Exchequer at one and the same time reduced taxation and the means of providing a "land fit for heroes." But, as he pointed out with irresistible logic, it was impossible to meet the desires of those who demanded new and vast expenditures in every special field while expecting simultaneous and sweeping reductions in taxation, and the figures he proceeded to disclose should have sufficed to dispel any remaining doubts on the subject.

Expenditure during the preceding financial year, owing to the cessation of hostilities, had fallen short of the estimate by £393 millions, and instead of an estimated daily expenditure of £8,143,000, the actual daily expenditure during the year was only £7,067,000. Revenue, on the other hand, had exceeded the estimate by £47 millions, but £37 millions of the excess came from Miscellaneous Revenue. The latter sum consisted of a contribution of £33 millions from India on account of the £100 millions of War Loan for which she had undertaken responsibility, additional grants from the Colonies amounted to £2½ millions, while the remaining £1½ million was the result of the large demand for silver coinage and resulting extra profits of the Mint.

Inland Revenue was £12 millions below the estimate. The yield of income-tax and super-tax was surprisingly close to the Treasury calculation, but the excess profits duty had fallen short by £15 millions. On the other hand, there was a surplus of over £3 millions from stamps, which are usually a trustworthy index of the state of trade and business. An increase in the sales of property was shown by an increase of nearly £1 million in the duties on conveyances, and transfers on stocks and shares had provided an additional £400,000, while the companies capital duty showed an advance of half a million. The increase in the cheque duty, which had given rise to so much discussion the previous year, had produced over one and a half millions, or more than double the estimate, and this high yield was attributed, firstly, to the bankers having sent in unexpectedly large stocks for embossment with additional stamps, and,

secondly, to the fact that the increase of the duty had not been followed by any noticeable decrease in the use of cheques.

Customs and Excise had also provided a surplus yielding approximately one-tenth more than had been expected. Beer had just failed to fulfil expectations, but tobacco continued to retain first place (attained under war conditions) as a revenue producer and had moreover exceeded the estimate by £5¾ millions. Other commodities showing a surplus were spirits and tea, while the increasing amount spent on entertainments had brought to the Exchequer an additional one and a half millions.

Revenue being higher, and expenditure lower, than had been anticipated, the balance sheet for 1918-19 was much less depressing than the prophets had feared. Instead of an estimated deficit of £2,130 millions, the amount to be met by borrowing was £440 millions less than that figure. The deficit had been met by the issue of National War Bonds to the tune of £986 millions and of War Savings Certificates amounting to £89 millions, supplemented by foreign loans totalling £400 millions, over three-quarters of which was obtained from the American Government, the balance being covered mainly by increases in the Floating Debt.

The National Debt proper, which at the outbreak of war stood at approximately £650 millions and on March 31st, 1918, at £5,872 millions, amounted at the end of the financial year 1918-19 to £7,435 millions. This figure, however, did not show the full extent of the Debt, for important items were not included, amongst which may be mentioned the premium on

National War Bonds amounting to £52 millions, the accumulated interest on War Savings Certificates, and the additional cost of repaying external debt which was largely repayable in appreciated foreign currency. On the other hand, there were certain assets of varying value. Firstly, there were debts due to us from our Dominions amounting to £171 millions. Our Allies owed us £1,568 millions; Russia headed the list with £568 millions, France came second with £434 millions, Italy owed us £413 millions, Belgium £87 millions, and Serbia £19 millions. Further items included the £30 millions balance of India's war contribution, and assets of a substantial character acquired out of Votes of Credit and now no longer required. When dealing with this question of assets, in which he included war indemnities, Mr. Chamberlain wisely took the precaution of emphasizing the uncertainty, not only of their amount and value but also of the probable dates of realization.

Passing to expenditure for the current year, the Chancellor pointed out that the estimates, large as they were, were less than one-half of those of the previous year, and considerably less than they would have been had the war not ceased. He laid stress on the point that the current financial year was not normal but definitely abnormal, particularly as regards the estimates for the fighting services. The huge increase in the Civil Service vote—from £64 millions in the previous year to £506 millions—had already given rise to a good deal of criticism. The figures for the two years were not however comparable, for in the current year, Votes of Credit no longer appeared, the respective items being included under the ordinary votes. Mr.

Chamberlain further explained that £275 millions was attributable to expenditure on temporary charges arising out of the war.

After remarking on the extraordinary difficulty, under existing conditions, of formulating accurate estimates, he informed the House that since the publication of the estimates, additions had had to be made to them. It had been necessary to assume new obligations amounting to £28 millions in respect of loans to our Allies, and there were liabilities of £20 millions in connection with coal, while the extension of unemployment benefit for a further period was expected to cost £8 millions. In addition to these items, there would be required £5 millions for loan expenditure under the Land Settlement Bill and £4 millions for the additional Civil Service war bonus awarded by the Arbitration Board, so that altogether a sum of at least £65 millions over and above the estimates as originally presented would be required. The total estimated expenditure, including these additional sums, for the current year was £1,434,910,000.

To meet this, there was an estimated revenue, on the existing basis of taxation, of £1,159,650,000. This amount included £300 millions from excess profits duty, and £200 millions from the realization of Votes of Credit assets. In addition to the £200 millions, which represented merely the receipts which would be paid into the Exchequer, it was estimated that there would be sales of assets yielding £254 millions which would be appropriated in aid of votes. These Appropriations in Aid, which of course would not appear in the national balance sheet, were made up

as follows: Ministry of Munitions, £140 millions; Ministry of Shipping, £50 millions; War Office, £50 millions; Admiralty, £14 millions. The assets to be realized during the current year amounted in all, therefore, to £454 millions, but this by no means covered the whole of the assets outstanding at the end of the financial year just closed, which were estimated by the Chancellor at £800 millions. The inclusion of such assets under the head of revenue undoubtedly obscured the true character of the balance sheet, a fact which the Opposition critics naturally did not allow to pass unnoticed.

The balance sheet, on the existing basis of taxation, showed a deficit of £275 millions, and, adding to this figure £25 millions for emergencies, Mr. Chamberlain estimated that the maximum amount of new borrowing which would be necessary during the current year would be £300 millions, which, he added, would be reduced, of course, by any new taxation as well as by any payment of interest or loan repayments from Allies or indemnities which might possibly be received during the year. He reminded the House, however, that the borrowing of this sum was only one, and that by no means the most difficult, of the problems in connection with the Debt. First of all, there were outstanding £957 millions of Treasury Bills, most of which were three-monthly, and had therefore to be re-borrowed four times during the year. During the war, this process had been relatively simple, as the public had temporarily invested in Treasury Bills capital which was intended eventually for employment in trade and industry, but now that peace presented opportunities for economic development, the difficulty

of re-borrowing was obviously considerably enhanced, and was, in the opinion of the Chancellor, no less great than the difficulty of new borrowing.

In addition to Treasury Bills, there would mature during the current year Ways and Means Advances of £455 millions, Exchequer Bonds totalling £245 millions, and £96 millions of Foreign Debt, thus making a grand total of £1,753 millions maturing during the year. The Floating Debt was, the Chancellor admitted, giving him grave concern, but he was not yet in a position to put before the House any definite scheme to deal with the problem. On the 31st March, 1919, the Floating Debt, that is, Treasury Bills and Ways and Means Advances, amounted to £1,412 millions. This figure was £224 millions higher than at the end of 1917-18, but it was a distinct improvement on the maximum of £1,550 millions which was the total of the Floating Debt on December 31st, 1918. The decrease which had taken place since the latter date was partially due to the normal seasonal decrease at the end of the financial year when revenue considerably exceeds expenditure, but the principal reason of the fall was the heavy subscriptions in War Bonds resulting from the special campaign in January.

Closely related to the question of the Floating Debt, more closely than the Chancellor appeared to be willing to admit, was that of the currency note issue. The amount of notes outstanding had rapidly risen. From £228 millions on April 1st, 1918, it had increased by the time of the Armistice to £291 millions; by March 31st, 1919, it had risen to £328 millions, and on April 23rd stood at £349 millions, but no corresponding increase had taken place in the gold reserve

which had remained stationary at £28½ millions, the balance being covered by Government securities. The total amount of legal tender in its various forms, which was estimated in 1914 to amount to about £214 millions, had now increased to £540 millions. It was obvious, said Mr. Chamberlain, that this expansion could not be allowed to continue indefinitely, but the remedy was not so simple as it might at first sight appear. Never at any time, he declared, had there been anything in the nature of a forced issue, currency notes having been issued only in response to the public demand for money. The problems of inflation had not at this time attained the importance and notoriety they subsequently achieved, but the official explanation of issue only in response to demand failed to meet with general acceptance amongst those competent to judge.

The demand for money, Mr. Chamberlain maintained, was continuing, and if, under existing circumstances, the Treasury should refuse to issue any more currency notes, such action would have a seriously adverse effect on trade and industry: there would be a violent rise in money rates and drastic restriction of credit with resulting ill-effects on wages, on the price of securities, and on the rates of Government borrowing. The Report of Lord Cunliffe's Committee was used by the Chancellor to support his thesis that the direct limitation of the currency note issue was impracticable until demobilization and war borrowing had come to an end. There was, however, every reason, he said, for tackling in the meantime the underlying causes, and he declared himself in favour of certain remedial steps: expenditure should be

reduced forthwith and should be met as soon as possible from revenue ; borrowing should be from real investors only ; Ways and Means Advances should be repaid ; and, lastly, the swollen mass of short-dated Treasury Bills should be funded.

At this stage, the Chancellor paused to warn the Committee as to the magnitude of the task before the nation, and emphasized the urgent need for national and individual economy. Having referred to the fictitious appearance of prosperity, the trebled legal tender and doubled bank deposits, and the huge amount of Government securities which represented not existing wealth but wealth consumed by war, he pointed out that we had realized £1,000 millions of our foreign securities and had borrowed abroad £1,300 millions, and, furthermore, there had been during the war wastage or depreciation of roads, houses, railways, and the many and varied means of production. Consequently, he said, a large part of the national production for many years would have to be devoted to repairing these losses and to meeting the new liabilities incurred ; and nothing but a united effort of all classes comparable to that seen in the years of war could enable us to face the difficult period ahead.

Mr. Chamberlain held out little hopes of a " normal " budget for some time to come. The current year was obviously abnormal. Peace had not yet been signed, and even when it had, war expenditure would still continue, while the revenue side of the national balance sheet would for some time be unduly augmented by receipts from the sale of war stores and other miscellaneous revenue. The normal year was

for the time being in the dim distance, but, like preceding holders of his office, he attempted to gaze into the future to estimate the expenditure of a normal year and to frame his tax proposals accordingly. Working on the assumption that when that hypothetical year arrived, the outlay on the railways and coal-mines would have ceased, and that all new loans to the Allies and all other abnormal expenditure, notably that in connection with the Ministries of Labour, Food and Shipping, would have come to an end, he estimated the normal national expenditure at £766 millions. The separate items of this optimistic prophecy are perhaps of more interest than the total. He reckoned £400 millions for the Debt Charge, including a sinking fund of ½ per cent., £190 millions for the Civil Service vote, £53 millions for the Customs and Excise, Inland Revenue and Post Office, £13 millions for minor services, and £110 millions for the fighting services, an estimate which was 40 per cent. above the pre-war figure and which has proved to be nearer the mark than his critics at that time were willing to believe.

The corresponding estimate of the normal year's revenue, when the excess profits duty had ceased and all available assets out of Votes of Credit had been realized, was, on the existing basis of taxation, £652 millions. In this figure, he included £198 millions from Customs and Excise, £400 millions from Inland Revenue, and £54 millions from all other sources. There would be, therefore, if the Chancellor's prophecy were realized, a deficit in the normal year amounting to £114 millions, and he announced that he intended to propose new taxation which would approximately

cover this deficiency when the proposals had fully fructified.

Before disclosing particulars of the new taxation, he dealt at some length with the land value duties and the motor spirit duty. The land value duties, which at their introduction had given rise to political and constitutional crises of the first magnitude, had at no time been productive for reasons in regard to which opinions differed considerably. These duties, the Chancellor declared, had now become unworkable, partly owing to various decisions of the Courts and partly for technical reasons, and in consequence the duties must be amended or repealed. The situation was of peculiar interest in view of the fact that in the bitter fight which was waged when, ten years earlier, Mr. Lloyd George had introduced these duties, Mr. Chamberlain was one of their most determined opponents. Now, the Chancellor said, the Prime Minister and himself, and, in fact, the whole of the members of the Government, were in entire agreement on the policy to be pursued. A direct attempt to amend or repeal the duties at the moment would have led to a recrudescence of bitter controversy, so it was decided that, before any action was taken, the matter should be submitted to a Select Committee, a strategic method of burying these duties without irreverence or unseemly haste.

Turning to the motor spirit duty, the Chancellor announced that in view of the serious defects of the existing duty, the Government had decided to abolish it and to obtain the necessary revenue from motor car users by revising the system of licence duties. They decided, however, to shelve the problem until the

newly-created office of Minister of Transport had been filled, contenting themselves in the meantime with abolishing the Excise duty and the licence duty on motor spirit. The Excise duty on motor spirit yielded about £50,000 a year, mainly from Scottish shale oil. For various reasons the motor spirit duty had been imposed only on such spirit as was ordinarily used for driving motor cars, and, in consequence, benzol in pre-war days had been exempt, as it was only occasionally used for this purpose. But the benzol industry, specially stimulated during the war by the Ministry of Munitions, had very considerably developed, and was now producing 21,000,000 gallons yearly, which, no longer needed for war purposes, was to be placed on the market for motor fuel.

The Chancellor regarded the industry as being of national importance, not only as an indigenous source of motor fuel but also as the supply of an important ingredient in the dyeing industry, and rather than impose the duty on a manufacture which had thus suddenly lost its market and which had been practically created at the Government's instigation, he decided to propose the repeal of the Excise duty. The abolition of the Excise duty while the Customs duty was being retained, which obviously meant protection for the home producers, met with little opposition from the free traders, possibly because the protective effect was only temporary and would automatically disappear when the Customs duty was replaced by the promised new licensing system. It may be remarked, however, that the new system did not come into force until the beginning of 1921. Another

change proposed by the Chancellor was the repeal of the motor spirit licence duty, which was entirely distinct from the Customs and Excise duties on motor spirit, and which, it will be remembered, had been imposed in 1916 in conjunction with a system of rationing to restrict consumption of petrol at a time when supplies were limited.

Mr. Chamberlain then turned to what he termed the most important feature of the budget: Imperial Preference. In preparing the scheme, he claimed to have followed four main principles: firstly, that the preference on Empire goods should be substantial in amount; secondly, that the rates should as far as possible be few and simple; thirdly, that preference should not be given at the expense of the home producer, and, therefore, that Excise duties must be correspondingly reduced; and, lastly, to consider as far as practicable the interests of the Allies and to avoid increasing duties on their products. There never was, he said, a time when it was so important that inter-Imperial trade should be developed. There were only three dutiable products imported from the Empire in large quantities, namely, tea, cocoa and rum, but there was, he maintained, vast room for expansion, and Imperial Preference should be judged not by its immediate results but by its vast potentialities.

The proposed preferential reductions varied. Empire cars and films, clocks and musical instruments, and other goods liable to the McKenna Duties were to be admitted at one-third below the full rates. In the case of the duties on tea, cocoa, coffee and chicory, dried fruits, sugar, motor spirit and tobacco, duties

which were for revenue purposes and were high relatively to the value of the goods, the Chancellor concluded that a preferential reduction of one-third would be not only unnecessarily large but also financially inexpedient, and decided on a reduction of one-sixth. The most important of the duties in this class from the point of view of preference was that on tea, nearly 90 per cent. of which came from the Empire; the preferential reduction of one-sixth, which meant twopence per lb., was estimated to cost £2,300,000 in a full year.

Alcoholic liquors were to receive special treatment. This was particularly necessary in the case of the highly productive spirits duties, for any preferential reduction in the Customs duties accompanied by a corresponding decrease in the Excise duty would have meant a serious loss to the revenue. Mr. Chamberlain was not prepared to face such a loss, and therefore adopted the method of giving preference to Empire spirits by imposing on foreign spirits a surtax of 2s. 6d. per proof gallon, thus producing, instead of a heavy loss, an estimated gain to the revenue of a quarter of a million. When the Chancellor came to deal with wines, he appeared to overlook his guiding rule of simplicity of rates, the preferential reduction for the different rates varying from 30 to 50 per cent. He decided in favour of a reduction on Empire wines instead of a surtax on foreign produce "in consideration of the interests of our Allies, notably of France and Portugal, and of some neutrals."

No preferential rates were introduced in the case of beer, because, he said, the arrangement of a preference would have been difficult, and, furthermore,

none was imported from the Empire. He suggested that, for the time being at any rate, the question of preference on beer might safely be shelved and similar treatment for analogous reasons might be meted out to table waters, matches and playing cards. All the preferential rates were to come into force on September 1st, except in the case of tea, when the reduced rates would apply from June 2nd. The estimated loss to the revenue resulting from the preferential reductions was £2,680,000 in the current year and £3,580,000 in a full year. On the other hand, the surtax on spirits was expected to produce £150,000, or in a full year £250,000.

The Chancellor next made the bald announcement that he did not propose to proceed with the much-discussed luxury tax, one of the budget proposals of the previous year. In a subsequent debate, he expressed his gratitude to the Select Committee for their valuable work, but remarked that he would have been unable in any case to adopt their schedules, not only because they overlapped but also because prices had radically changed. He furthermore denounced as vicious the proposed principle of the still-born duty whereby one good article would have been taxed while two cheap articles—in the long run possibly more expensive—would have escaped scot-free.

Mr. Chamberlain proposed to increase the spirits duty from 30s. to 50s. per proof gallon, which was estimated to produce in a full year an additional £21,650,000. Recent alterations in controlled prices and relaxation of the restrictions on deliveries had increased the profits of the trade beyond what in his opinion was a reasonable figure, and he therefore

decided to divert part of these gains to the Exchequer. Controlled prices were to remain unaltered except as regards spirits sold in bottle, jar or cask. In spite of the fact that the duty had been increased in the previous budget, the further proposed increase met with very little opposition, apart from that shown by certain Irish Members, who strongly protested against what they described as an unjust burden on Ireland.

Somewhat similar treatment was meted out to beer. The restrictions on output, which had recently been relaxed, were to be further modified, thus increasing the total authorized annual production to 20,000,000 standard barrels, compared with a pre-war barrelage of 36,000,000. Retail prices were to remain unchanged, and in view of the sustantial increase in the margin of profit, Mr. Chamberlain said that he felt justified in raising the duty from 50s. to 70s. per standard barrel. At this period, the demand for beer considerably exceeded the supply, owing to the severe restrictions on output, and the estimated increase—£31,300,000—in the beer duty yield in a full year was based upon the unusual assumption, which nevertheless was fully justified by subsequent events, that the increase in the duty would be accompanied by an increase in consumption. Surprisingly little criticism was aroused by the proposed increase, the spokesmen of the Trade appearing to be more concerned about the restrictions on gravities and output.

The further rise in the beer duty brought into prominence the hoary problem of the private brewer who brewed beer only for his own use. The Chancellor had considered the possibility of entirely prohibiting

brewing in the home, but in deference to an old-established custom in certain agricultural districts, he decided instead to raise the licence duties and to withdraw the privilege, hitherto extended to the occupiers of houses of an annual value not exceeding £8, of brewing without a licence. He declared, however, that he would not view with equanimity or patience a large increase of private brewing in consequence of the increased duty imposed upon brewers for sale. As the result of representations made in Committee, he moved an amendment on report permitting agricultural labourers under certain conditions to brew free from licence duty two bushels of malt yearly for harvest beer.

The next tax to be dealt with was the excess profits duty, which was, as we have seen, highly productive, but was in many other respects open to criticism. An 80 per cent. tax on profits undoubtedly tended to encourage extravagant expenditure amongst those firms liable to the duty. It also acted as a brake on enterprise and business development, while it was decidedly inequitable in some respects, differentiating as it did in favour of the firm which was prospering in the pre-war basal period as against the new business or the firm which had been having a far from prosperous time before the war. Mr. Chamberlain, after discussing the defects of the duty, declared that it would be contrary to the public interest to continue the tax at the existing high rate a moment longer than was necessary, but on the other hand, it was a war tax, war expenditure had not yet ceased, and it was therefore impossible to repeal the duty without imposing some tax to take its place. Various alternative

imposts had been suggested but the Government had been unable to devote the necessary time to the matter, and, as a temporary measure, it was decided to steer a middle course and to continue the duty at one-half the existing rate. At the lower rate, it was expected to produce in a full year only £50 millions, but owing to delay in assessment and payment and certain other causes, the reduction in the rate did not affect the estimated yield of £300 millions for the current year.

Turning to the death duties, the rates of which had remained unchanged throughout the war, Mr. Chamberlain proposed to obtain in a full year a further £10 millions from this source. He supported his predecessors' policy of leaving the rates unchanged during the war on the ground that the death duties were not a suitable instrument for meeting a temporary emergency, but the time had now come, he said, to consider a permanent increase of revenue. No change was to be made in respect of estates up to £15,000, but above that figure the scale was very materially steepened, the proposed maximum rate of 40 per cent., applicable to estates of over £2 millions, being double the highest rate hitherto payable. This was a rather startling step for a Conservative Minister, and Mr. Chamberlain defended it on the double ground that taken in conjunction with the income-tax it constituted a further differentiation between wealth from continuing personal exertion and wealth derived from accumulated capital, and that such taxation was an insurance for the safety of capital, quoting in support the familiar dictum of Montesquieu that taxation is that part of a citizen's

wealth which he gives to obtain the secure possession of the remainder.

The Chancellor dealt at some length with the question of a capital levy, which had been widely discussed but was not yet the vital political issue it subsequently became. But it had no doubt influenced him in making an addition to the estate duty of no great importance from a revenue point of view. After enumerating what in his opinion constituted its defects and dangers, the difficulties in the way of equitable valuation, the problems of payment, the possible depreciation of all securities, and the risk of the levy being repeated, he expressed the hope that the House would "lend no countenance to so hazardous, and, in my opinion, so disastrous an experiment." He contrasted the suggested levy with the death duties, which were in effect a levy on capital, but a levy imposed "justly and fairly as between man and man," with a minimum of evasion or of fraud, and emphasized the point that as everyone did not die at the same time, the task of valuation and assessment was relatively easy, and any depreciation of securities or disturbance to credit reduced to a minimum.

Income-tax rates were for this year at least to remain unaltered, but in spite of this, the estimated yield for the current year from income-tax and super-tax was £354 millions, an increase of £63 millions over the actual receipts of the preceding year. This increase the Chancellor attributed to two causes, apart from normal growth: firstly, owing to the previous budget's increase in the rates, the arrears carried forward at the end of the year were at a higher figure, and, secondly, owing to the extension of the instalment

system, only one-half of the Schedule A taxation had been collected in the preceding year. No mention, it will be noticed, was made as to the effects of the change in the value of money. Continuing, he said that, pending the great changes which the Royal Commission on income-tax were likely to propose, he considered it wisest to make no changes other than those necessary to fulfil undertakings already given, such as the exemption from income-tax of wound and disability pensions and of gratuities payable on demobilization.

Before concluding, Mr. Chamberlain summed up the effects of his proposals. In a full year, the new taxation was estimated to produce an additional £60 millions from Inland Revenue and £48,950,000 from Customs and Excise, or approximately £5 millions short of the deficit which he had calculated would have to be met in the hypothetical normal year. In his calculations he had included £50 millions from excess profits duty, which he reminded the House was merely temporary and for which some substitute would have to be found. During the current year, the new taxation was expected to produce only £41,450,000, so that the final figures for 1919-20 were: Expenditure, £1,434,910,000, and Revenue, £1,201,100,000, leaving a deficit of £233,810,000.

After speaking for two and a half hours, Mr. Chamberlain brought his speech to an end. "I have now," he said, "completed my immediate task. I have endeavoured to give the House as clear a picture as is yet possible, both of our present position and of our future prospects. I have had to urge upon the House, as I may have to urge again and again, the

necessity for severe economy in national and individual expenditure. I have no hope of any reduction in expenditure unless we in this House show an example. I have had at the same time to impose further large burdens upon the community. I cannot hope that in the discharge of either part of my task that I shall earn popularity. But in one point I find satisfaction. I am grateful that it has fallen to my lot to make the first proposal in this House for the statutory embodiment in our financial system of that policy of Imperial Preference with which my father's name and fame will ever be linked."

All the past Chancellors of the Exchequer who were present were sitting on the Government benches, so the privilege of opening the debate fell to Mr. Adamson, the Chairman of the Labour Party. After describing the budget as a great disappointment for Labour, he declared that the necessary revenue should have been found without having further recourse to borrowing, and strongly protested against the reduction of the excess profits duty at a time when we were unable to make ends meet. With regard to the introduction of Imperial Preference, he said his party viewed the innovation with grave concern, being strongly of the opinion that it was the thin end of the wedge and the beginning of protection in this country. He then proceeded to outline one or two ways in which additional revenue might with advantage be obtained. The excess profits duty, he maintained, had been shamelessly evaded by some of the war munitions contractors, who should be compelled to disgorge most, if not all, of their profits ; the essential national services should be exploited to the full for

the benefit of the nation; the income-tax rates should be stiffened; while a further suggestion was that in order to reduce the war debt, the capital levy would have to be seriously considered. In addition, he was apparently in favour of a levy on war wealth at the rate of 80 per cent. of the amount by which a taxpayer's capital on April 30th, 1919, exceeded the amount of his capital five years earlier.

In a less crude form, the levy on war wealth met later with a good deal of support from all classes and manner of men. Although it would have been far less productive than a capital levy imposed on a taxpayer's capital, irrespective of whether it had increased or decreased during the war, a levy on war wealth appeared to offer a means of heavily taxing war fortunes, and thus made a peculiar appeal to a public already puzzled and angry with the elusive and indefinable "profiteer."

Subsequent discussion was cut short in order to allow a debate on the Government agricultural policy, but before the usual budget night resolutions were taken, Sir Donald Maclean, the leader inside the House of the Independent Liberals, declared that they were opposed root and branch to the principle of Imperial Preference, but, under the circumstances, they would allow the resolutions to go by without forcing a division. The mere suggestion of such unusual procedure as a division on budget night provoked Mr. Chamberlain to remark that Sir Donald would have at subsequent stages ample opportunities of challenging the proposals.

Sir Donald was the first to catch the Speaker's eye when the debate was resumed on the following day.

He commenced by deploring the continuance of excessive expenditure and appealed to the Chancellor to declare to the spending departments that the time had come to budget for a normal year. Discussing the capital levy, he warned the Government that there would be grave dissatisfaction if some method were not found "of getting back to the public Treasury those vast sums which have gone to individuals as the price of the lives and the health of hundreds of thousands of our best citizens." He then passed to the burning question of Imperial Preference, and began by quoting excerpts from the budget speech purporting to show that it meant, and must mean, as Mr. Joseph Chamberlain had said, that there could not be Imperial Preference without a tax on food.

At this point, the Chancellor interposed. "Personally, I have never repented," he said, "of my support of a tax on food in pre-war times, and have never given anybody any reason to be doubtful of my opinion upon the subject; but it is no proposal of his present Majesty's Government to place new duties upon food, and what I had in mind when I used the words my right hon. friend has quoted was that Imperial trade now actually done in the articles made the subject of preference will, I believe, under that preference, enormously extend within the lifetime of many Members. If it goes further still, I am glad, but all I had in my mind in that statement was the effect of the actual preference proposed in the present budget."

Sir Donald, resuming, repeated that it was the beginnings that counted, and that this was the first step towards the complete system of preferential

dealings with our Colonies which Mr. Joseph Chamberlain had said must entail a tax on food. Taking tea as an illustration of the system, he maintained that of the twopence preferential reduction, the consumer would be very lucky if he benefited to the extent of a penny a lb. India, he continued, would benefit very little, for the gain would go into the pockets not of the natives but of the traders who had offices in this country, while in China, one of our greatest potential markets in the East, a great deal of irritation would be caused. We were at the parting of the ways, he concluded, and he and those associated with him were determined to fight the proposals to the end.

The next to rise was Lt.-Col. Amery, the Under-Secretary of State for the Colonies, who denied that preference involved an issue of principle between free trade and protection. It was a political issue, he said, not an economic one, and ingeniously suggested that Imperial Preference was a policy for the free trader just as much as for the protectionist, for it was a step towards the free traders' ideal of the British Empire—free trade internally and externally—insomuch as it reduced existing duties, and free traders ought really to complain that it did not go far enough. Lt.-Col. Amery, although like the Chancellor unrepentant on the question of taxing food, pointed out that Mr. Joseph Chamberlain's declaration on the subject was made in 1903, at which time the Dominions were mainly producers of raw materials. Canada had since then, he said, become a great industrial and manufacturing country and would be able, with substantial preference, to offer in the next few years ample competition to ensure the efficiency

of our industries. With regard to the attitude of foreign Powers to the Imperial Preference proposals, he maintained that they would have no more cause for complaint than we had to complain of free trade between Texas and Massachusetts or between one province of China and another.

"We do feel," Lt.-Col. Amery concluded, "that consistent with the interests of this country, the more we develop true commerce and intercourse between parts of the Empire, and the more we can help to strengthen those Dominions whose strength has been ours in this long day of trouble, the better it will be. Surely that policy is well worth pursuing and developing entirely irrespective of those old party divisions on matters of trade and economics within this country which I think we all look at with a very different eye to-day on one side and the other. We are entering upon a new period in the history of this country and the Empire, full of industrial, social and economic problems which we have got to deal with in a new spirit, forgetting our pre-war ideas. We can, at any rate, start with this sure foundation, with the knowledge that we can only solve our local problems in this country successfully if we treat them all the time from the point of view of the wider unit."

Another long speech, on a day when speeches were noticeably longer than usual, was delivered by Mr. Arnold, who endeavoured to show, firstly, the insufficiency of the proposed additions to taxation, and, secondly, the necessity of meeting a large part of the war liabilities by means of taxation of capital, two subjects upon which he had discoursed to the House on several previous occasions. He estimated the

expenditure in a normal year at not less than £900 millions, as compared with Mr. Chamberlain's figure of £766 millions, and this meant, he said, that additional revenue amounting to £134 millions would be required, which, if obtained from income-tax, would entail a general rate of about 9s. in the £. He held that it was not possible to continue raising year after year, by taxation which was equitable and economically sound, the enormous sum of £900 millions, and, therefore, the only solution was to reduce the debt, and consequently the debt charge, by means of a capital levy. Further arguments advanced by Mr. Arnold in favour of a levy were that an inevitable fall in prices would increase still further the burden of the debt, and, secondly, that most of the capital was owned by older men, so that a capital levy would tend to equalize the burden in favour of the younger men who had already suffered in the war, and had also lost several valuable business years.

Later in the evening, Mr. Locker Lampson took the unusual course of moving an amendment to a budget resolution. The amendment in question was to the effect that if either a husband or wife who were living together claimed to be separately assessed for purposes of income-tax, neither of them should be liable to pay a larger sum in income-tax than they would if they were unmarried. The existing law, he said, under which income-tax was assessed on the joint income of husband and wife, was a penalty on marriage, and the hardship was all the greater because of the steep graduation in the rates. Mr. Chamberlain, dealing briefly with the substance of the motion, suggested that the proper place to discuss the

matter was on the Finance Bill, and the amendment was accordingly withdrawn.

The report stage of the resolutions occupied two days. Speaking to an amendment to the tea duty resolution, Mr. Chamberlain gave a brief history of the modern movement towards Imperial Preference: how at conference after conference, the principle of preference had been pressed upon our acceptance by the Colonies, and how at last, in 1917, "the Home Government, in the midst of a great war and of the emotions stirred by that war, looking at the way in which the Empire had sprung together when the call to arms came, thinking of what a reality the Imperial spirit had shown itself to be, and what a force in the world's history this Imperial kinship was, then, for the first time, British Ministers ranged themselves with the Ministers from overseas in the acceptance of the principle for which they had so long contended. I do not know whether the House will forgive me, but they know the emotion which this question stirs in me, and I hope they will forgive me for telling them that a little time ago, a year or two ago, a gentleman who was at one time a Member of this House wrote me a letter saying that he was at a certain meeting which my father addressed upon this subject in the year 1905, . . . and that, going to stay at the same house with him after the meeting, he, in the course of conversation, said to my father, 'The case you make seems to me so plain and so strong that I cannot understand how people fail to accept it.' My father said, 'They will accept it one day, but it may be at the cost of much blood and treasure.' That day," said the Chancellor, "has come."

The resolution continuing the McKenna duties met with considerable opposition from the free traders, who maintained that the duties were imposed for the duration of the war only, and that to continue them was a breach of faith, but the Chancellor of the Exchequer refused to accept that position or the alleged reasons which impelled the late Government to impose these duties. It was quite probable, he said, that if one could have seen behind the curtains in Downing Street in 1915, one might have found that in that Government there was not complete harmony of opinion on all subjects, on this amongst others, and not all its Members would have given exactly the same reasons for the imposition of the McKenna Duties as were given by Mr. McKenna himself. These remarks were of peculiar significance, seeing that Mr. Chamberlain was himself a prominent Member of that Government.

Speaking on the income-tax resolution, Mr. Arnold urged that the existing exemption limit of £130 should be increased to £250, not only because owing to the high price-level £130 was only equivalent to a pre-war £65, and the workers' efficiency was adversely affected by the tax, but also as a business proposition because of the high cost of collection and the irritation caused amongst the workers. Mr. Clynes, who followed, laid emphasis on the very real feeling on the matter which undoubtedly existed at that time in working-class quarters, where the prevalent view was that the £130 limit was, and should be only regarded as, a mere war measure. To this, Mr. Chamberlain retorted, with some justice, that the war needs which gave rise to the change in the exemption limit still continued.

The second reading debate was opened by Sir Donald Maclean, who urged the great need for increased Treasury control, and then dealt at some length with the suggested capital levy, without, however, committing himself very far. "If it is a sound thing," he said, "it ought to be tried. If it is unsound, do not let us try it, but you can only find out from the judgment of others whether it is sound or unsound by hearing what the men who know have to say for or against it." He deplored very much, he continued, that a question of this kind should be made a party cry, because it was merely a question of meeting a grave emergency by an emergency measure.

Brigadier-General Croft, who followed, expressed his cordial agreement with the previous speaker's remarks concerning Treasury control, and then, having urged once again the need for remedying the injustice of double income-tax, he turned with a very critical eye to the proposed increase of the death duties. This kind of Bolshevism was, he said, quite a new departure for Mr. Chamberlain, who must, apparently, have fallen under the influence of his new friends. The Chancellor, he suggested, would look with abhorrence at the ideas prevalent in Russia, and would say that Lenin and Trotsky were thieves and scoundrels because they were stealing 100 per cent. of a man's possessions, but the Chancellor was himself getting on fairly rapidly seeing that he was taking 30 to 40 per cent. of large estates.

At this point Mr. Acland rose to move the Independent Liberal amendment:

"That this House declines to give a second reading to a Bill which makes inadequate provision out of revenue for the

expenditure of the country, which fails to deal with the war debt by means of a capital levy, which reduces the taxes payable by the recipients of business profits without lessening the burdens borne by those whose labour contributes to the creation of the profits, and which initiates a system of preferential and protective tariffs."

A somewhat similar Labour amendment was on the order paper. In a lengthy speech, Mr. Acland proceeded to deal with the various points at issue. It would be, he said, very disappointing if, as he feared, there were next year increases instead of decreases in taxation. He demanded that the proposed capital levy, a fair and practicable proposal, should receive from the Government far more careful investigation and consideration than it had had in the past. Coming to the Imperial Preference proposals, he quoted four points from a speech made by Mr. Asquith at Newcastle a few days earlier: firstly, the proposals were an illegitimate abandonment of revenue; secondly, it was illegitimate to use the McKenna Duties, imposed for purely temporary purposes, as a vehicle for introducing a preferential system; thirdly, the preferential reductions were really a sham, as the benefit to the Dominions was practically insignificant; and lastly, they were intended to be the precursors of a fully-planned system of preference and protection. Concluding with a reference to the continuance of the McKenna Duties, he said it was insulting the intelligence of the House to hold them out as sumptuary taxes. They were not, he remarked, banteringly, by Frugality out of the Inland Revenue, but were by Filial Piety out of the Board of Trade.

Mr. Chamberlain, replying to the various criticisms,

maintained that Treasury control had been restored as completely as had been possible in the short time since the Armistice. On the question of Parliamentary control of expenditure, he suggested that the House of Commons was not an efficient body for checking expenditure and did not at any time help the Chancellor of the Exchequer of the day to exercise control over expenditure. He reminded the House of a fact which had long been obvious, namely, that each Member wished to economize on those services for which he did not care while demanding increased expenditure on other services, but, on any given point, there was always a majority for spending more, not less. To the critics who had censured him for including under the head of revenue £200 millions from Vote of Credit assets, he replied that there was a further £250 millions appropriated in aid of particular votes, and asked if they suggested that an additional £450 millions should have been obtained from taxation during the year, an interesting debating point but not a very satisfactory reply to the question whether money obtained from the realization of Vote of Credit assets should appear in the national balance-sheet as revenue.

Turning to that part of the amendment which referred to a capital levy, the Chancellor twitted the Independent Liberals with their indecision, maintaining that not only the mover of the amendment, Mr. Acland, but also their leader, Mr. Asquith, and their Parliamentary leader, Sir Donald Maclean, had declined to commit themselves in favour of such a levy. He remarked on the risk of second and subsequent levies, and, after commenting on various

administrative difficulties, asked how the advocates of a levy proposed to deal with all the life interests and contingent interests and remainders which entered largely into the British economic structure, but which had been entirely overlooked by the supporters of the scheme.

Great interest was manifested in the speech of Sir Alfred Mond, First Commissioner of Works and at one time one of the most prominent men in the free trade movement, who rose to confute the suggestion that no Liberal Member of the Government could justifiably support the preference proposals. How anyone could contend, he remarked, that a reduction of existing duties could be an infringement of the principle of free trade quite passed his comprehension, because it was obviously a movement, and a very strong movement, towards free trade. Carrying the attack into the enemy's country, he described it as extraordinary that Mr. Asquith, who was responsible for the Paris resolutions which involved not a reduction of duties but a system of tariffs, should jibe at Imperial Preference. He concluded a long and interesting speech with a reference to the capital levy, the introduction of which without long and careful consideration would, he averred, spell disaster, check enterprise, increase unemployment, and increase the great uncertainty which was paralyzing our trade and commerce.

A still more uncompromising opponent of a capital levy was Sir E. Wild, who, speaking towards the end of the debate, sharply criticized it on four grounds, namely, because it was dishonest, because it was impracticable, because it was improvident, and,

lastly, because it was blackmailing. Beyond that, he added caustically, he knew nothing against it. A little later, a division was taken on the amendment, which was lost, and the debate on the main question was adjourned until the following day.

On the resumption of the debate, Mr. Hogge derided his former free trade colleagues who, he said, were now going into the lobby in favour of preference, and finding very readily and easily arguments for that course. After prodding various Liberal Coalition Ministers with quotations from their past speeches on the subject of preference, he turned to the proposed capital levy and declared himself definitely in favour of the proposal.

In one of the longest speeches of the day, Lord Hugh Cecil introduced a spirit of originality into the debate. A capital levy, he suggested, was entirely unnecessary in this country, for, said he, if it were really possible to make a levy amounting to thousands of millions, we could get the cost of the war out of Germany by imposing the levy there, whereas, if it were impossible to impose it in Germany, because it was too onerous, too difficult and too complicated, then it would be too onerous and too complicated to introduce it here. He then attacked the death duties on various grounds, and suggested that it would be more equitable to charge the duties according to the amount received by each individual heir, and not according to the total value of the estate. He also made an interesting attempt to traverse the theory that an acquirer of wealth is of more value to the State than a possessor of wealth. On the question of public economy, he suggested that no public Bill

involving expenditure should be read a second time until there had been placed on the table a Treasury estimate of the cost and what taxation—taking typical taxes like the income-tax and the tea duty—would be likely to be involved. He considered also that there should be a Second Chamber with financial control. With regard to the preferential duties, he said that they should be judged on their merits, and ventured the opinion that on the whole the political advantages far outweighed whatever economic disadvantages might theoretically be attributed to them. But his concluding remarks struck a slightly different note. The interests of the whole world were the same, he said; human prosperity was indivisible throughout the world between nation and nation as between class and class, and that, he declared, was his great objection to all the protectionist theories in international trade.

Mr. Mackinder, replying to this argument of the indivisibility of human prosperity, expressed his willingness to agree, with one reservation, namely, that the possibility of war was ruled out. He contended that the essential point of difference between free traders and protectionists was that the former insisted on thinking, in their process of economic reasoning, as though war never existed, whereas protectionists insisted that war was a danger and must be taken into account. That was the great difference, he argued, between the two rival theories, and that was one of the main reasons why a greater measure of agreement on the subject was beginning to appear.

A rather different reason was given by Sir Ryland Adkins when explaining why he and many other

Coalition Liberal free traders supported the budget. They did so, he said, because it was sound on the whole; because those parts to which they objected were within the concordat and alliance to which they were parties; and because, at such a time when peace was delayed and international problems were more acute than during the war, they would do nothing which might weaken the authority of that Government and Prime Minister whom they believed to be indispensable at that moment to the welfare of the Empire.

In the final speech before the question was put, Mr. Baldwin replied to the various criticisms advanced during the debate, and concluded by taking to task a Labour Member who had hinted that he would go to any lengths, unconstitutional if necessary, in his opposition to the budget. "I hope most earnestly," said Mr. Baldwin, "that we have so far escaped from the militarism of war-time that hon. Members . . . may not see fit to convey their objection to matters in the budget by veiled threats of what they will do outside this House. A very great responsibility rests upon this House. There is no alternative in this country between this House and anarchy, and with that sense of responsibility before all Members, collectively and individually, I feel quite certain that when the budget goes into Committee it will not be impossible that we may reconcile our differences there and that hon. Members who have been but a short time in this House may possibly regret having used such language as was used this afternoon."

The Finance Bill reached the Committee stage on July 8th. The first day was devoted almost entirely

to Clause 1, which provided for the continuation for another twelve months of the tea duty, the additional duties on dried fruits and motor spirit, and the new import duties, or, as they are popularly termed, the McKenna Duties, all of which had been continued by the Finance Bill, 1918, until August 1st, 1919. The attention of the House was focussed on the McKenna Duties, which had previously met with considerable opposition. Sir Ryland Adkins opened by moving that these duties—on motor cars, musical instruments, clocks and watches, and cinematograph films—which had originally been imposed in 1915 as temporary war measures, should be allowed automatically to lapse. He maintained that these duties were protective and that to continue them into the autumn of the following year would, by giving them an appearance of permanence, suggest they were intended as the foundation for some fiscal system, and, as a supporter of the Government, he appealed to the Chancellor to agree to their discontinuance.

Mr. Chamberlain, replying, declared that he wished to avoid any fiscal controversy, and had proposed the continuance of these duties provisionally for a year without desiring thereby to commit either himself or anyone else to any particular fiscal or trade policy in the future. The duties were imposed, he said, under war conditions, and circumstances were still substantially the same as when Mr. McKenna introduced them ; there was still the same need for revenue and the same necessity for restricting the importation of luxuries and superfluities. Further, the foreign exchange was in his opinion a serious problem, and at such a time when huge quantities of absolutely essential

foods and raw materials must be imported, it was very undesirable that any money needed for essentials should be devoted to expenditure on luxuries. He concluded by asking the House to support the continuance of the duties on three grounds: the financial necessities of the country, the desirability of discouraging the importation of luxuries, and lastly, because such a small issue could not determine the future policy of the country. This statement was obviously not critic-proof and the free traders soon entered the lists.

Captain Wedgwood Benn averred that the moment had come for deciding whether we were to be free traders or protectionists. Originally, he said, the duties were not protective, particularly as regards motor cars, because the machinery was during the war employed in war manufactures, but these conditions no longer obtained. And if revenue were needed, why, he asked, had the Chancellor given away £3½ millions to shareholders of tea companies and other people in this country. He next queried the alleged beneficial effects on the exchanges on the ground that the restrictive effect was the same in the case of the American exchange, which was adverse, and the French exchange, which was in our favour. This criticism of the indiscriminative effect on the exchanges, favourable and unfavourable, was repeated on many occasions during the passage of the Bill, but was probably the least substantial of the objections raised against the continuance of the duties.

Subsequent critics asked why, if revenue were needed, corresponding Excise duties were not proposed, and why, if it were desired to restrict importation of

these commodities, the Government did not make use of the Board of Trade system of restricting imports which was already applicable to a large number of articles. Mr. A. Williams contrasted the tone of the Chancellor's speech made earlier in the day—an explanation of a proposal merely to continue a war measure for a further twelve months, with the relative passages in the budget speech—a pæan of triumph at the coming of the new fiscal system, and declared that under such circumstances he could not but suspect the somewhat belated explanation of the unimportant character of the proposals.

Another free trader, Mr. Sturrock, suggested that as the Government's permanent fiscal and trade policy, about which there had been a great deal of mystery, was according to the Prime Minister's promise to be unfolded in September, these duties, which he described as reeking and stinking of the old-fashioned protection in its crudest shape, should be allowed to disappear in order to clear the way for a free and unfettered discussion of the whole financial and commercial problem.

After further discussion, Mr. Lambert suggested that, in view of the strong feeling on the subject, the Chancellor should compromise on the question of the date, a suggestion which was immediately accepted by Mr. Chamberlain, who said that his aim had been to preserve the right of the House to consider the duties on the next budget. For this reason, he said, the ordinary budget date had been proposed, but he was quite willing that the McKenna Duties should continue only until May 1st, 1920, instead of August 1st, thus making a distinction between these much-

discussed duties and the other temporary duties mentioned in the clause.

Sir Ryland Adkins thereupon agreed to the withdrawal of his motion, and formally moved that the new import duties should continue until May 1st, 1920. A division was challenged, 257 voting with the Government and 75 against. Sir Ryland subsequently remarked that the differentiation in date would, by showing that the House did not regard these duties as having the quasi-permanent character which attached to the other duties, act as a warning to manufacturers here and elsewhere, and would also make it more difficult to perpetuate these war-time fiscal expedients.

Sir Donald Maclean's glasses were of a different tint. He could not apparently see sufficiently clearly to decide whether the alteration in the date was a wile or stratagem, or merely a happy thought, but he congratulated the tariff reformers. He was always willing, he said, to admit a victory for those with whom he was engaged in honourable and fair conflict, and they had undoubtedly made the first step, and it was the first step which counted, on the road to tariff reform, a step which, unless the country decided otherwise by a sweeping majority, would prove to be irrevocable. His premonitions were not entirely without foundation.

The following day was spent mainly in discussing the Imperial Preference proposals. The debate was opened by Captain Wedgwood Benn, a determined opponent of the whole scheme, who maintained that the financial advantage by which it was proposed to consolidate the Empire would not go to the Colonies

at all but would merely benefit shareholders in this country, while the feeling engendered in the Colonies would be one not of gratitude but of irritation because of the unequal distribution of benefits. New Zealand, for example, he said, would derive practically no advantage whatever, while others, such as Australia, might benefit in certain unimportant industries but would receive no benefits in their main industries, the supply of raw materials. He then asked which of the members of the Coalition were going to be deceived ; would it be the tariff reformers who regarded the proposals as the beginning of the realization of their dreams, or would it be the Coalition free traders who saw nothing but a minor and unimportant concession which could not possibly lead to protection ? The chief fiscal objection to the principle of preference, he continued, was that preference could not be given to the Colonies without a full-blooded tariff, the adoption of the one would lead to the adoption of the other, and he called upon all free traders to resist the beginning of the evil.

Lieut.-Commander Kenworthy, continuing the attack, protested against what he termed this insidious bargaining, the slippery slope which would lead to high tariff walls and to a further war, instead of to the new brotherhood, the new world which he and his associates wanted to obtain with the help of the League of Nations. With regard to the claim that the General Election had given the Government a definite mandate for introducing preference, he asserted that the questions which had swayed the Coalition supporters were " Make Germany pay " and " Hang the Kaiser," and expressed doubts as

to whether the policy of Imperial Preference had turned 100,000 voters. There was, of course, something to be said for this attitude, but, on the other hand, as Coalitionists pointed out, there was no gainsaying the fact that the question of preference had been put before the electors clearly and unmistakably in the joint manifesto by Mr. Lloyd George and Mr. Bonar Law. Lieut.-Commander Kenworthy concluded by describing the preferential reductions as an insult to the Colonies where, he said, there was no demand for these reductions. To this, Sir Frederick Young replied that representatives of all the self-governing Dominions and India had at the Imperial Conference spoken in favour of preference, and it must be assumed, he said, if one had any belief in Parliamentary institutions, that those gentlemen were speaking on behalf of, and knew the wishes of, the people whom they represented.

This question of the attitude of the Empire to Imperial Preference was taken up by Mr. Chamberlain, who, rising early in the debate, said the Dominions had repeatedly made it clear that they did not wish to interfere in our domestic controversies concerning tariff policy, but they had repeatedly and unanimously asked that, in whatever form of tariff we adopted, the principle of Imperial Preference should be embodied. The desire of the Colonies for Imperial Preference, he continued, was by no means a new one: it was first proposed by that great Dutch leader, Mr. Hofmeyr, at the Conference in Paris, while the first to carry it into effect was the late Sir Wilfrid Laurier, the leader of the Liberal Party in Canada, who did so in spite of the deliberately aggressive action of Germany. At

Colonial and Imperial Conferences for years past, he said, the question had been raised, and at every Conference but one the only dissentient voice had been that of the Mother Country, while the last Conference had been unanimously in favour of our adoption of the principle.

In the course of his remarks, the Chancellor of the Exchequer made some pointed comments on the recent General Election. Those with the longest experience of politics, he suggested, would be the last to declare what issues the voters had in their minds and on what they gave a decisive expression of opinion, but, speaking generally, the issue was whether, for personal or public reasons, it was desirable that this or the other set of men should be entrusted with the powers and the duties of national administration. He felt personally that if the truth about the last General Election were to be told, it might not be very flattering to many of them ; in short, the result was an expression of confidence that Mr. Lloyd George was the proper man to take the helm during the difficult times confronting the nation. Therefore, he said, it became of importance to know what Mr. Lloyd George had said to the electors, and proceeded to quote the explicit declaration in the joint manifesto relating to Imperial Preference.

A striking contribution to the debate came from Mr. Lyle Samuel, a Coalition free trader, who opposed the Government's preferential policy on three grounds : firstly, because of the financial loss involved ; secondly, because of what he described as the provocative nature of the budget speech ; and, lastly, because he considered the Chancellor's policy would perpetuate

the existing condition of trade and impose an intolerable burden on the community. The suggestion that Imperial Preference was essential to avert the disintegration of the Empire, as was asserted by some preferentialists, was in his opinion an insult to the Colonies. Why disturb the spiritual recognition of a spiritual unity of which the Chancellor had spoken, he asked, by bargaining in terms ot cash. "Is this," he continued, "the way to talk about the sacrifices of these men who came from far parts of the Empire? Give them 1d. on a mouth organ, 2½d. on a motor car to a South African who does not make it, or 3d. on a film to an Australian who does not make it, or 4d. on a clock to a Canadian who does not make it, and if 4d. is not enough, will 6d. do, and if we double it and make it a shilling, will you love us twice as much, and if we make it £1, will you love us through this world and the world to come? I am a very strong Imperialist, and that is why I regret this degradation of listening to such a conception of Empire which, if it be true, and if it is to be the sort of Empire that the Chancellor is going to build up and make still more firm, will be as rotten as the Roman Empire and as rotten and menacing as the German Empire, and will call upon itself inevitably sufficient of the forces of civilization to secure its destruction."

Later in the evening, Mr. Chamberlain moved an amendment providing for the extension of preference, under certain conditions, to any territories which might be mandated to us. He explained that preference would be extended to mandated territories only if the terms on which we received the mandate were compatible with such action. The amendment

led to a spirited debate. Mr. Hogge declared that such a policy would probably cause dissension amongst the members of the League of Nations, and was likely to promote war and not peace. Captain Benn accused the Government of flouting the third of President Wilson's famous Fourteen Points, and of infringing Article 19 of the Covenant of the League which laid it down that no advantage should be given in mandated territories as between the signatories of the Covenant. The Government was now proposing, he said, to give an advantage in order that the territories should trade with us and not with our Allies who signed the Covenant. But, as Mr. Chamberlain pointed out a few days later, there was no question of our imposing on a mandated territory a tariff favouring our goods, which would undoubtedly have been indefensible; it was merely a question of granting preference, and any other country would be equally free to grant a similar preference to territories mandated to us.

The free traders scored, however, in the discussion on the preferential reduction on saccharin. Under the preferential scheme, the duty on Empire and home-produced saccharin would be one-sixth below that chargeable on imports from non-Empire sources, but, as Mr. Acland pointed out, no saccharin was imported from the Empire, and the reduction on the home-produced commodity was therefore indistinguishable from protection, an argument which applied with more or less force to certain of the other duties. Mr. Chamberlain admitted that no saccharin had ever been imported from the Empire and that it was not likely under any circumstances to become a substantial

Empire import, but maintained that it was desirable to treat all the duties on a common principle. Captain Benn, refusing to accept this explanation, averred that here they had, for the first time, protection naked and unashamed.

On the following day, the clause continuing the excess profits duty at one-half the existing rate met with a good deal of opposition. Labour was unanimously and unequivocally against the reduction. Much was made of the feelings of discontent and resentment provoked amongst the working classes by the proposal and by the continuance of profiteering. Mr. W. R. Smith declared that it was essential in the best interests of the country that the duty should be continued at the existing rate of 80 per cent. He agreed that it was a war measure and that some alternative method would eventually be required, but the time had not yet arrived, he said, for any change, particularly in view of the fact that we were still borrowing to meet current expenditure.

The Independent Liberals were less unanimous. Sir Donald Maclean maintained that the excess profits duty was a tax which should be strictly confined to the war period, for it was not conducive to industrial development, it encouraged extravagance, and penalised initiative. On the other hand, Mr. Hogge, differing from his leader, described it as iniquitous to reduce the duty by one-half, while the conscription of life was being continued until April, 1920. In his view, the duty should have been imposed throughout the war at the rate of 100 per cent., for if the State compelled a man to surrender everything, his life maybe, his business or earning capacity, and to leave

his wife and children, then, he said, the same sacrifice should be required from wealth and capital.

More than one speaker appeared to regard the question as one of what profits were made during the war, how much was taken in taxes and how much more could be taken, but Mr. Chamberlain said he approached it from a totally different angle. His main consideration was whether the continuance of the duty was harmful from the point of view of industrial revival, and it was only with the greatest reluctance, he said, that he continued the duty for another year, even at the reduced rate. He declared emphatically that it was not from any tenderness to profiteers or to extravagant profits in business that he proposed a reduction of the duty, but because he felt that the duty at the existing high rate was inimical to the proper development of our industries, that it tended to encourage extravagance, that viewed as a permanent part of our tax system it was inequitable, and that—and here he came on to more debatable ground—the duty was one of the factors in the rise of prices which was giving rise to so many complaints. The effect of the duty was cumulative, he said, for it was levied 3, 4, 5, or 6 times between the arrival of the raw material and the final sale of the finished commodity to the consumer, and it was therefore not in the interests of any particular class but in the interests of trade and industry, and of the nation as a whole, that he proposed the reduction of the duty.

A corresponding reduction from 80 to 40 per cent. was made in the excess mineral rights duty. The contention of the Government with regard to the reduction of the excess profits duty, namely, that it

was necessary to encourage industrial development, was scarcely tenable in the case of mineral rights. A further point advanced by the critics was the possible effect of the rate reduction on the purchase price if the Sankey Commission's recommendation to purchase the coal royalties were adopted.

A new clause was introduced by Mr. William Graham to extend the income-tax relief in respect of children under sixteen years of age to include all young persons receiving full-time education. The subject had been raised in previous years without success, but this time the proposal met with a more favourable reception. Mr. Baldwin promised to go part of the way and to introduce a clause on report extending the existing age limit of sixteen to eighteen.

Mr. Locker Lampson resumed his attack on what he had called the penalty tax on marriage with a new clause, similar to his amendment to the budget resolution, which provided for the separate assessment of husband and wife for income-tax purposes. The proposal seemed to meet with a good deal of sympathy, but it was less desirable than appeared at first sight. Mr. Chamberlain pointed out several of the defects involved in such a proposal, and added that the annual cost to the Exchequer would be £20 millions, and eventually probably double that amount. Mr. Locker Lampson's efforts were not, however, to be entirely in vain, for the Chancellor announced that to show his sympathy with some of the hardships of the existing system, he was willing to increase the wife's allowance from £25 to £50. Further minor concessions in connection with this allowance were made at the report stage.

The fourth day in Committee opened with a debate on Mr. Arnold's new clause proposing to increase the income-tax limit of exemption from £130 to £250. Mr. Arnold repeated the arguments advanced at an earlier stage, and in support of his contention that the collection of income-tax on the lower incomes was inordinately expensive, he gave some figures which appeared to surprise many Members. The gross amount of income-tax on incomes below £250 per year was only £7,886,000, and the cost of collection was £600,000, or approximately 7½ per cent., compared with a collection cost of roughly 1 per cent. on incomes over £250. The preceding year, there were 5,346,000 persons liable to income-tax, of whom 4,093,000 enjoyed incomes of less than £250, and of the latter number, 1,930,000 were eventually found, owing to abatements and reliefs, to be exempt, so that in nearly two million cases forms had to be filled up and examined without any revenue being received. Would it not be better, he asked, to discontinue this wasteful and irritating process and exempt all incomes below £250.

Mr. Chamberlain pointed out that he had already agreed to increase the wife's allowance and to raise the children's age limit, and compared the new conditions with those of pre-war days when there had been no wife's allowance and the children's allowance had been only £10. A single man with no dependents was worse off, he admitted, but on the other hand, a married man with four children would pay less, even at the existing high rates of tax, than he did before the war, unless his income exceeded £6 a week. (This calculation made no allowance, of

course, for the fact that, owing to rising prices, a man's real wages might remain stationary, or even fall, while his nominal wages increased.) The Chancellor said that in view of the existing relief, and the amount of revenue involved, he could not consent to the proposal to reduce the exemption limit to £250, which would involve the extension of the scale of reliefs above that point. Turning to the broader issues, he declared that it would be a bad day for everyone, including those exempted, if taxation were so imposed that the mass of the electors were freed from the financial responsibilities entailed by such policies as they supported. After some further discussion, he announced that although unable to agree to any change in the exemption limit, he was willing to increase the allowance for the first child from £25 to £40, the allowance for subsequent children remaining at £25, and expressed the hope that this would be accepted as a final concession for the year. Mr. Arnold's motion was thereupon withdrawn; but in the following year, as the result of the deliberations of the Royal Commission on the income-tax, a range of effective exemption limits was set up varying from £135 to £378 (married: 3 children: earned) and even higher, according to circumstances of marriage, with or without children, and character of income, which, if it did not satisfy the requirement expressed by Mr. Chamberlain in the above quoted words, has been accepted as both workable and equitable.

An amendment making minor alterations in the rates of entertainments duty was accepted by the Chancellor. It would, he said, entail no loss to the

revenue but would permit picture palace proprietors to arrange the prices of admission more conveniently. Certain other minor concessions, including one relating to the modification of the Schedule A allowances for repairs, were granted or promised.

At the report stage, taken on July 23rd, the Chancellor introduced a new clause providing for the additional income-tax reliefs in respect of children, to which he had agreed in various debates, and notified his intention, in response to representations made on the subject, to extend relief to all children irrespective of age who were receiving full-time education.

As the vacation was drawing near, and a large amount of important work still remained undone, the Government proposed, with the consent of the Opposition parties, to take the third reading immediately after the report stage, notwithstanding the practice of the House—suspended during the war—as to the interval between the various stages of a Finance Bill. One Member protested against rushing the Bill through in this manner, and a division was challenged, 288 voting in favour of the motion and five against.

In due season, Captain Benn moved that " this House declines to give a third reading to a Bill which for the first time introduces protection into the fiscal system of this country and initiates a system of Colonial Preference which must ultimately lead to the taxation of imports of food and raw material." The obvious error in the phrase " which for the first time introduces protection " gave Mr. Chamberlain the opportunity of a little humour at the free traders' expense. After a short debate, the House divided on

the amendment, which was lost, whereupon the Bill was read a third time and passed.

The Bill reached the Lords on July 28th. Two days later, Lord Crewe, rising after the second reading had been formally moved, dealt briefly with the main features of the Bill. Coming to Imperial Preference, he acknowledged that it was difficult for an unrepentant free trader like himself not to suppose that the proposals were intended as the portico of introduction to a general tariff. Liberal and Labour opinion, he went on, was unanimous with regard to taxes on food, but beyond that he had his doubts ; devotion to State interference and State control, in his opinion, brought the Socialist very close to the protectionist. Quoting Bastiat, he remarked that " after all is said and done, a protectionist is nothing but a socialist with an income of 50,000 francs a year." After further debate, which appeared to turn largely on the commercial and industrial future of the country, the Bill was read for the second time. The following day, the Committee stage being negatived, the third reading was taken without debate, and later in the day the Bill received the royal assent.

This budget was of an essentially transitiona character. Expenditure was rapidly declining, although it was still hundreds of millions above what the most pessimistic might regard as normal, but it now appeared possible that the huge gap between outgoings and the still rising revenue might soon be bridged. The estimated deficit of £234 millions, which at the time was regarded as a welcome surprise by certain financial critics who had expected a much larger deficiency, was, however, a somewhat misleading

calculation, and, with a different system of national accounts making due allowance for the realization of Votes of Credit assets, the difference between expenditure and revenue might have been shown at something approaching £800 millions. Furthermore, the official figure of £234 millions was based on estimates which erred on the optimistic side, and in the revised estimates presented in October, expenditure was shown at £1,642 millions and revenue at £1,169 millions, thus leaving an estimated deficit, on the basis of the official figures, of £473 millions.

One notable feature of this budget was the reliance placed on indirect taxation, which, for the first time for many years, was called upon to bear by far the greater share of the new burdens. The budget proposals were estimated to produce in a full year nearly £50 millions additional revenue from indirect taxation and only £10 millions from the increased estate duties, while the excess profits duty was being reduced by 50 per cent.

There is little doubt, however, that this budget will be remembered not for any of the changes involving tens or scores of millions, but for an innovation of relatively little financial importance, the re-introduction into the tariff of the principle of Imperial Preference, destined, however, to be somewhat of a disappointment, for some years at any rate, to all parties: to its supporters whose hopes were only partially realized, and to its opponents whose worst fears proved to be unfounded.

MR. AUSTEN CHAMBERLAIN'S FOURTH BUDGET, 1920-21.

April 19, 1920.

When the time came to present the second post-war budget, sixteen months of peace had by no means simplified the problems of budget-making. The enthusiasm for taxation which had characterized large classes of taxpayers during the war had been replaced by an attitude towards all Government finance which was becoming more and more critical. Yet the Chancellor of the Exchequer, faced by the Government's avowed policy of putting a stop to new borrowing and providing from revenue an adequate sinking fund, could not apply the balm of reduced taxation, but was impelled, on the contrary, to apply a strong irritant in the shape of a very substantial increase in the tax burden. The pleasing idea of war indemnities sufficiently large to pay for the war or for a substantial part of it—an idea which the country relinquished only with great reluctance—was disappearing, and it was gradually being realized that the task of meeting the bill could no longer be postponed.

Furthermore, Mr. Chamberlain had found it necessary, less than six months after introducing the first post-war budget, to revise his estimates for 1919-20. In the revised estimates presented to the House on October 23rd, 1919, revenue was estimated at £1,169 millions, and expenditure at £1,642 millions, leaving an estimated deficit of £473 millions—practically double the original budget figure. A large part of

the increase was due to delay in realizing Appropriations in Aid, including repayments of £20 millions, mainly from Australia for maintenance of Australian troops, and £69 millions from Germany for the cost of the Army of Occupation, it being evident that neither item would be received during the financial year. The deficiency was further increased by the continuance of food control, which prevented the accounts being wound up and the estimated credit balance of £65 millions being paid over to the Exchequer. New items in the estimates were additional loans to the Allies (£32 millions) and increased pay for the fighting services (£21½ millions), while an increase in the war pensions estimate, extra police grants, war bonus, and expenses due to the strike accounted for a further £44 millions. When, therefore, on April 19th, 1920, Mr. Chamberlain introduced his fourth budget, the nation was more or less prepared for increased taxes, although not for such heavy increases as were proposed.

Once again, the budget speech commenced with a story of wide divergencies from the estimates. This year, however, the differences were less serious than in previous budgets, and the House had been forewarned of many of the variations by the revised financial statement submitted in the previous autumn. Expenditure had exceeded the budget estimate by £231 millions and the October estimate by £23½ millions. Included in the year's total, however, was a sum of £87 millions for expenditure which had been actually incurred and voted in 1918-19, but not brought to account until the year just ended. The revenue figures were more cheerful, the actual

Exchequer receipts being £138 millions more than the Chancellor had estimated in his budget and £171 millions more than his October estimate. These figures meant that instead of a budget deficit of £234 millions, the actual deficiency on the year's finances was £326 millions.

Of the unexpected tax surplus of £59 millions, over £45 millions came from indirect taxation. A surplus of more than £6 millions from beer and of £11 millions from spirits were attributable mainly to the removal of the restrictions on deliveries, but the great increase in the consumption of tea and tobacco could not be similarly explained. The increase in tea deliveries from 321 million lbs. in 1918-19 to 400 million lbs., even after allowing for the replenishment of traders' stocks, indicated an unprecedented increase in consumption. Tobacco showed a still more striking rise, from 114 million lbs. in 1918-19 to 150 million lbs. Some of this went to augment depleted stocks, but the rise was very largely due to increased consumption, itself the result of the continuous rise in wages, the return of our armies from abroad, and the rapidly increasing number of female smokers. A further sign of the increased spending power of the people was a surplus of £2½ millions from entertainments duty.

Inland Revenue showed surpluses of varying amounts under every head except excess profits duty, which showed a deficit of £10 millions. There was a surplus of £5 millions from income- and super-tax, while death duties had yielded £7½ millions more than had been anticipated. The revenue from stamps was nearly double that of the budget estimate, an increase which reflected the phenomenal number of flotations

of companies, sales of land, and the other numerous transactions subject to stamp duties, which accompanied the post-war boom.

The next item dealt with was Miscellaneous Revenue, which Mr. Chamberlain proposed should henceforth be sub-divided into ordinary and special. The former, including such revenue as Mint receipts, fee stamps, and surplus interest due to the Exchequer from the Currency Note Investment Reserve Account, had yielded a surplus of £9½ millions, while special miscellaneous revenue had exceeded the budget estimate by £62 millions, owing mainly to war contributions from the Straits Settlements, Hong Kong and Guernsey, a further payment from India of £9 millions, and a surplus from Votes of Credit realizations amounting to over £51 millions arising from unexpected increases from the Ministry of Shipping and the Ministry of Munitions.

The previous year's balance sheet, like all those since 1914, showed a heavy deficit, but the proportion of expenditure met by loans had very substantially decreased. Less than 20 per cent. of Exchequer Issues had been provided by borrowing, compared with a percentage of over 65 for the previous year. Taking the Exchequer Issues for the period from April 1st, 1914, to March 31st, 1920, the Chancellor pointed out that the proportions of expenditure met by revenue and borrowing were respectively 36·17 and 63·83, which he claimed was a record of which his predecessors might well be proud, an opinion which, as we have seen, was not shared by all parties.

Mr. Chamberlain dealt at some length with the National Debt and its various problems. On March

31st, it had stood at £7,832 millions. The substantial increase over the previous year's figure was due in part to the conversion of various 5 per cent. issues into 4 per cent. Victory Loan issued at 80, and 4 per cent. Victory Bonds at 85, which increased the face value of the debt by from £130 millions to £140 millions while making practically no change in the interest charge. Issue at a heavy discount—a policy which on balance has little to commend it—was not the only questionable feature of these loans; considerably over £100 millions of stock was taken up directly by the banks, and there is little doubt but that this necessarily entailed further inflation.

A considerable improvement had been made during the previous year in regard to the Floating Debt, and, what was particularly pleasing, Exchequer borrowing from the Bank of England on Ways and Means—with all its undesirable effects on credit and prices—had by the end of the financial year been wiped out. Unfortunately, during the first ten days of April, the Government was again forced to borrow from the bank to the tune of £55 millions, owing to the non-renewal of maturing Treasury Bills. Under these circumstances, Mr. Chamberlain had no choice but to raise the Treasury Bill rate, and the Bank of England simultaneously raised the bank rate. These difficulties, as the Chancellor pointed out, illustrated only too vividly the necessity for an immediate solution of the Floating Debt problem.

The external debt amounted at the end of 1919-20 to £1,278 millions, an improvement on the previous year's total. A further reduction was to be made by repayment in the United States of the Anglo-French

loan of five hundred million dollars. We had begun to ship gold to meet our share, and this action, the Chancellor claimed, had had a beneficial effect on credit which more than justified any sacrifice involved. Before leaving the subject of debt, he commented on the great success and valuable results of the Savings movement—the beneficial effect on thrift, the vast and in many ways desirable increase in the number of Government stockholders, not to mention the £310 millions of new money obtained, and paid a well-earned tribute to Sir Robert Kindersley, the chairman of the National Savings Committee, whose work in this sphere had been invaluable.

Mr. Chamberlain then passed to the revenue estimates for the current year. On the existing basis of taxation, the total revenue was estimated at £1,341,650,000, of which Customs and Excise would provide less than one-quarter, Inland Revenue approximately one-half, and non-tax revenue the remainder. He explained once again that the estimated yield of the excess profits duty (£210 millions) represented mainly tax payable in respect of accounting periods already closed or approaching their term, so that if the tax were now terminated, the greater part of the estimated receipts would still be receivable during the current year. This point was seized upon by critics who, in their attempts to secure a reduction of the duty, subsequently urged that the continuation of the duty was not an absolutely essential part of the year's finances. The Chancellor went on to point out that this year, miscellaneous revenue would be expanded by a corresponding reduction in Appropriations in Aid ; all Disposal Board receipts were to be

paid directly to the Exchequer and none appropriated in aid of the Munitions votes, similar treatment being meted out to receipts by the Ministry of Shipping and certain other receipts from Dominions and Allies due to the fighting services. The principal items in the special miscellaneous revenue estimate of £302 millions were £120 millions from Disposal Board receipts and £60 millions from the sale of raw materials.

The Chancellor, when dealing with the estimates of expenditure for the current year, adopted a somewhat apologetic attitude. The totals were large, he said, and no one would pretend they were anything but formidable or that it was not disappointing that no further reductions had been possible, but he asked the Committee and his critics outside not to forget that supply expenditure for 1919-20 represented a reduction of nearly 60 per cent. on that of the previous year, and that the supply estimates for the current year represented a further reduction of 35 per cent. on those of 1919-20. The Army estimates had fallen from £405 millions to £125 millions, the Navy had been reduced from £157 millions to £84 millions, and the Air estimates had declined from £54 millions to £21 millions. Mr. Chamberlain laid stress on the fact that the estimates for the year were necessarily still swollen by war charges, including £56½ millions for the fighting services alone, in addition to the cost of additional garrisons in Mesopotamia, Egypt, and elsewhere. A further £300 millions was due to charges of a temporary character, directly or indirectly attributable to the war, including the bread subsidy, loans to Allies, and the cost of the temporary ministries, the liquidation of

war contracts, and the relief, training and re-settlement of ex-soldiers.

The total estimated expenditure for the year amounted to £1,177,452,000, thus leaving, on the existing basis of taxation, the sum of £164 millions for the reduction of debt. But, in the opinion of the Government, this surplus was inadequate, being hardly sufficient to provide for statutory sinking funds, the repayment of debt—mainly external—maturing during the year, the depreciation fund in connection with the third War Loan, and credits to the Inland Revenue on account of Government stock accepted in payment of death duties and excess profits duty. Of the £164 millions surplus, there would be at the most only £4 millions available for the reduction of the dangerously large Floating Debt, and the Chancellor warned the Committee that he was going to call for a further generous effort to improve our credit, and by sacrifice in the present, to lighten the future burden and establish securely our national credit.

Before dealing with taxation proper, Mr. Chamberlain drew attention to the position of the Post Office, which, before the war, yielded an annual profit of £6½ millions, but was now being carried on at a loss of £3 millions, and this deficit would shortly be increased by £8 millions, the estimated cost of meeting the outstanding claims of the postal employees for additional wages and bonus. The Government had decided that this deficit of £11 millions must be met by increased charges, and the budget proposals were accordingly framed so that, while producing only £6½ millions additional revenue in the current year,

they would in a full year be sufficient to make the Post Office pay its way. The letter postage was to be increased from 1½d. for 4 ounces and ½d. for every additional 2 ounces, to 2d. for 3 ounces and ½d. for each additional ounce. Other proposed changes included increased rates for newspapers which at existing rates were being carried at a heavy loss, the minimum charge for telegrams was to be raised to one shilling, parcel postage rates were to follow the increases already made in railway parcel charges, and proposals were to be laid before a Select Committee for producing an additional £2¾ millions by means of increased telephone charges.

Mr. Chamberlain dealt next with one or two proposals which, while having no very substantial effect on the Exchequer, were of considerable importance from other points of view. The first was the proposal, foreshadowed in the previous budget, to abolish as from January 1st, 1921, the existing motor car licences together with the import duty on motor spirit, and to substitute a revised system of licences for mechanically propelled vehicles designed to produce in a full year the net sum of £8,400,000 to be paid over to the road fund. A Committee had been appointed the previous year to consider the matter, and, according to the Chancellor, it was on their recommendations that the budget proposals were based. The estimated revenue from the existing motor spirit duty up to December 31st was £2¾ millions, and this, with a yield of £4½ millions from the new licence duties up to March 31st, would make a total revenue of £7¼ millions for the current year. Deducting from this total £600,000 in respect of a

prior lien already enjoyed by the local authorities, there would remain a net revenue of £6,650,000 for the road fund. The responsibility of supervising the collection of the licence duties and for the spending of the money was to be placed upon the recently created Ministry of Transport.

The next proposed change, of relatively little revenue importance but of considerable political interest, was the abandonment of the land value duties. The Chancellor expressed regret that neither the Government nor Parliament had derived any guidance from the Select Committee appointed the previous session, which was hardly surprising in view of the controversial character of the subject. There was, he claimed, universal agreement on one point at least, that the duties in their present form were unworkable ; they had, he continued, produced very little revenue, while—with the exception of the mineral rights duty—they were now for various reasons wholly or partially in abeyance and could only be revived, if at all, by the passage of highly technical legislation. The Government, he said, had unanimously decided that the proper course to adopt was the abolition of the duties with the exception of the mineral rights duty, which was a simple and easily administered tax.

With the proposed abolition of the duties arose the question of the arrears—some of which dated back to the first year of the duty—including duty which it was impracticable to bring into assessment owing to adverse judicial decisions, and duty which had been assessed but remained uncollected. The Chancellor recalled the pledge given by Mr. McKenna in 1916

that as regards the payment of undeveloped land duty there would be no eventual discrimination, and suggested that, as this pledge demanded that any undeveloped land duty already paid should be refunded, the Committee would recognize the desirability of authorizing the repayment of any taxes already paid under the increment value duty and the reversion duty.

The proposal to repay the duties already paid, unavoidable as it appears to have been under the circumstances, added fuel to the Opposition flames. The sole consolation for the land taxers was the Cabinet's decision to continue the Land Valuation Department of the Inland Revenue in its existing form. The Government, said Mr. Chamberlain, were convinced of the need for a thoroughly equipped and efficient State Valuation Department whose services would be available, not only in connection with the death duties but also for the use of the Government in its varying activities. Its utility, he said, had been proved in connection with the requisitioning of land for war purposes, and with housing, land settlement and other schemes. It is to be noted, however, that the special valuation, directed to April 30th, 1909, had not been finally completed, and as it now ceased to have any fiscal significance, no further action was taken with regard to it and no use is made of it.

The Chancellor of the Exchequer then began to unfold his main revenue proposals. No one was surprised to hear that spirits were to contribute still more to the Exchequer, although the amount of the increase was perhaps larger than had been anticipated. All restrictions on deliveries of spirits had been

removed the previous November, and although manufacturing costs had increased, the Chancellor considered that the controlled prices left a margin of profit to the trade which was more than reasonable. This margin was, however, insufficient for his purpose, and he decided to call upon the consumer to make a further contribution. The duty was accordingly to be increased from 50s. to 72s. 6d. per proof gallon, corresponding changes being made in controlled prices, the retail prices rising by 2½d. per gill in public bars and by 2s. per bottle. Considering the extent of the increase, and the already high rate of duty compared with the pre-war rate of 14s. 9d. per proof gallon, the proposals met with surprisingly little opposition.

Beer was also the subject of Mr. Chamberlain's unwelcome attentions. The restrictions on the amount brewed had been removed as from July 1st, 1919, although restrictions on gravities and prices still remained. Manufacturing costs had increased, but, with the possibility of unlimited supplies, he maintained that the profits of the brewing trade would permit of some further increase in the beer duty without raising the price to the consumer. But the increase so justified was insufficient for his needs, and the beer consumer, like the spirits consumer, was to contribute his quota, the beer duty being increased from 70s. to 100s. per standard barrel, and the retail price by a penny a pint. Such an increase came as a surprise to most Members, yet comparatively little criticism was aroused, most of it reflecting the consumer's point of view. The trade had learnt that heavy taxes on alcoholic liquors did not necessarily mean low profits. Critics declared that the optimum

point had been passed, and that with such a high rate of duty the yield would be disappointing, but these predictions were more than falsified by the actual receipts.

This year, for the first time since 1899, the wine duties were to be increased. Mr. Chamberlain said that nothing but consideration for our Allies, particularly France and Portugal, would have justified him last year in making such heavy increases in the beer and spirits duties while leaving the wine duties untouched, and suggested that in view of the further heavy imposts on beer and spirits, the wine duties could no longer remain at their existing low level. The pre-budget rates were 1s. 3d. per gallon for light wines, 3s. for heavy wines, and, when wines were imported in bottle, additional duties of 1s. per gallon on still wine and 2s. 6d. on sparkling wine. The duty per bottle, approximately one-sixth of these figures, was therefore only 2½d. for light wine bottled before importation, with corresponding higher figures for other varieties, and in no case could the duties be regarded as high in comparison with the duty on beer or spirits. Mr. Chamberlain, declaring that the rates, particularly in the case of sparkling wines, showed a margin for further taxation, proposed to double all the existing rates, and, furthermore, to impose an additional surtax at the rate of 50 per cent. *ad valorem* on all sparkling wines. Abnormally high prices were being demanded for sparkling wines, he said, and the new *ad valorem* duty would bring the duty into closer relation with the selling price. The increases in the wine duties were estimated to produce £3,800,000 in the current year, £1,800,000 of which

was accounted for by the *ad valorem* surtax on sparkling wines.

Another object of luxury, imported cigars, received somewhat similar treatment. Cigars in pre-war days had been a noticeable instance of protection in an otherwise free trade tariff, although the protective effect of the surtax on cigars, unlike that on imported cigarettes, was materially mitigated by the peculiar trade conditions. Mr. Chamberlain proposed to add to the existing surtax on imported cigars a further surtax of 50 per cent. *ad valorem*, which was estimated to produce an additional half a million during the current year. A preferential reduction of one-third was to be granted on Empire goods in the case of the *ad valorem* duties on both cigars and sparkling wines.

The Chancellor then passed to direct taxation, directing his attention first to stamps, the revenue from which had recovered from its decline during the war period and was now more than double its pre-war level. The only stamp duty increased during the war was that on cheques, which was raised from 1d. to 2d. by Mr. Bonar Law in 1918. The gloomy prognostications of objectors to the proposed increase had not been fulfilled, for the revenue from cheques in 1919-20 amounted to approximately £3 millions, which was more than double the yield in either 1917-18 or 1913-14. With this exception, the whole of the increased revenue from stamps had been obtained on pre-war rates, and mainly from conveyance on sale duty and duty on companies' capital. These figures, said Mr. Chamberlain, justified an increase in the duties, and he accordingly proposed to raise the duty

on the transfer of stocks and shares from ½ to 1 per cent., and the companies' capital duty from 5s. to £1 per cent. Further proposed changes included raising the receipts stamp duty from 1d. to 2d., increasing the duty on fire and accident insurance policies from 1d. to 6d., and imposing heavier rates of duty on sea policies. The whole of the changes in the stamp duties were estimated to produce £6,300,000 in a full year.

Passing to income-tax, Mr. Chamberlain announced that although there would be no change in the main rate, he proposed to give effect in the Finance Bill to certain important recommendations of the Royal Commission on the income-tax. The whole of the Commission's proposals, intricate and far-reaching as many of them were, could obviously not be included in the Finance Bill, and it was accordingly decided to bring in a special Bill later in the session. The changes to be immediately introduced included measures designed to eliminate the sudden jumps at various steps in the scale, and to re-adjust the burden of the tax in favour of the smaller incomes at the expense of the larger incomes. Family responsibilities were to receive increased recognition, the exemption limit for married couples with no children being increased to £250, with further concessions for the lower incomes, while the limit for unmarried persons was to be raised to £150. Provision was also to be made for a reduction of the burden on people with small invested incomes.

It may be mentioned here that the Bill, introduced later, embodying many of the remaining recommendations of the Royal Commission, was dropped owing to the opposition aroused. This was the last occasion

on which the practice of introducing a separate Revenue Bill was followed. Such a Bill was a great convenience for dealing with administrative matters, but difficulty was always experienced in finding the necessary time for its progress, and for this reason the Treasury have since that time adopted the practice of covering all necessary measures in one Bill—the Finance Bill.

Although the income-tax rate was to remain unaltered, material modifications were to be made in the super-tax scale. With the exception of the rate applicable to the excess of income above £30,000, which was to be 6s. instead of 5s. 6d., the Chancellor proposed to adopt the scale recommended by the Royal Commission. This meant that the limit of super-tax exemption would be lowered from £2,500 to £2,000, and that the new rates would vary from a minimum of 1s. 6d. to a maximum of 6s. 0d. in the £. The proposals of the Royal Commission had been based on the principle that super-tax-payers as a whole should not pay more taxation, but that such tax-payers with incomes not exceeding about £8,000 should benefit at the expense of the larger incomes. Similarly, the income-tax proposals embodied in their report had been so framed that the whole of the recommendations, while remedying inequities and easing the burden on the poorer tax-payers, would mean neither a gain nor a loss to the Exchequer, but only a part of the scheme was being adopted for the time being, with the result that there would be a net loss during the current year of £2,700,000. This loss, however, would be partially counterbalanced by the withdrawal of certain war-time concessions. Mr.

Chamberlain announced that the special rates of tax and other income-tax reliefs allowed as war concessions to soldiers and others, together with the other temporary reliefs introduced to meet war conditions, would now cease, thus saving the revenue £2 millions yearly.

The thorny problem of double income-tax was to be settled—for the time being, at least—on the basis of the Royal Commission's recommendations. In respect of income taxed both in the United Kingdom and in a Dominion, there would be deducted from the rate of the United Kingdom income-tax (including super-tax) the whole of the Dominion rate, subject to the limitation that the maximum rate of relief given by the Home Government should not exceed one-half of the rate of the United Kingdom income-tax (including super-tax) to which the individual taxpayer might be liable. The Commission had suggested that any further relief necessary to make the relief equal to the lower of the two taxes, Imperial or Dominion, should be given by the Dominion concerned. An example will perhaps make the proposal clear. Where income was subject to, say, 5s. in the £ in Great Britain, and 3s. in the Dominion concerned, relief from the United Kingdom tax would be at the rate of 2s. 6d. in the £, and the balance of 6d. in the £ would remain to be granted by the Dominion, although at that time the agreement had not been implemented by the Dominions. Representatives of Australia, Canada, India, Newfoundland, New Zealand, South Africa and the Isle of Man had taken part in the conferences on the subject and, as the Commission's report tells us, it was largely owing

to an endeavour to secure their unanimous acceptance that the scheme originally drafted by our Inland Revenue Department was withdrawn, and replaced by the one finally adopted and embodied in the budget proposals which was more generous in its effects. As the budget concessions affected only income taxed both in Great Britain and in any part of the British Empire, there still remained unsolved the thornier problem of income taxed in a foreign State as well as in Great Britain, a question with regard to which the Royal Commission had refrained from making any recommendation.

Mr. Chamberlain next disclosed one of the most important and best-kept secrets of his budget. The excess profits duty, which he had so sharply criticized the previous year when reducing it from 80 to 40 per cent., was to be increased to 60 per cent. He explained that at the time of his last budget, industry was disorganized, unemployment was rife, and a fall in prices and profits seemed certain, but an entire change had taken place and he justified the proposed increase on the continuance (which he mistakenly anticipated) of the post-war boom, with resulting abnormal and often wholly extravagant profits. Any change in the rate of this duty had little immediate effect on the yield, and the proposed increase in the rate raised the estimated yield for the current year by only £10 millions, although in the following year an additional £90 millions was anticipated. The Chancellor held out one hope for the industrial interests. If, he said, the Select Committee then inquiring into the practicability of a levy on war wealth recommended, and the House imposed, such

a levy, the proposal to increase the excess profits duty would be withdrawn. But this glimmer of hope for the excess profits makers soon flickered out.

Another surprise for the Committee was the Chancellor's proposal to introduce a corporation profits tax at the rate of 1s. in the £ on the profits of limited liability concerns engaged in trade or business. The first £500 of such profits was to be exempt. In order that the burden should not be too heavy on holders of the ordinary shares of concerns in which there were large issues of debenture and preference shares, the duty chargeable was to be limited to a maximum of one-tenth of the profits remaining after fixed dividends and interest had been paid. In the assessment of the tax, the amount of excess profits duty paid would be first deducted, and in the calculation of the profits for income-tax purposes, the amount of both corporation profits tax and excess profits duty were to be likewise deducted.

Mr. Chamberlain reminded the Committee that many prosperous concerns with a high pre-war standard of profits paid little or no excess profits duty, and said the new tax would do something towards correcting that anomaly. But his main justifications for the tax were that it was some acknowledgment for the privileges of limited liability, and that it might also be regarded as a composition in lieu of the liability to super-tax, to which the undivided profits of a private partnership were liable but from which the undivided profits of a limited liability concern were exempt, an exemption which explained the strange, but not unusual, transformation of a wealthy man into a limited liability company. On the basis of existing

industrial conditions, the new tax was estimated to produce £3 millions in the current year, and £35 millions in a full year or £50 millions if the excess profits duty disappeared. The new tax was intended eventually to take the place of the excess profits duty, but the Chancellor intimated that the date when the latter duty would disappear was indefinite and depended on many circumstances, including the continuance of the existing high level of profits and, most of all, on the result of the investigations of the Select Committee on War Wealth.

All of the Chancellor's secrets had now been disclosed. In a full year, he said, the changes were estimated to produce £198 millions, of which £9½ millions would be derived from the Post Office, £64 millions from indirect taxation, and the remainder from the direct tax-payer, excess profits duty and corporation profits tax being regarded by him for this purpose as direct taxation. During the current year, the budget proposals were estimated to produce an additional £76,650,000, bringing the total estimated revenue for the year to £1,418 millions, compared with an estimated expenditure, exclusive of sinking funds, of £1,184 millions, thus leaving £234 millions for debt redemption, which was equivalent to a sinking fund of approximately 3 per cent. of the total outstanding debt. Over two-thirds of the surplus would be required to meet maturing liabilities, leaving a sum of £70 millions available for the reduction of floating debt.

Mr. Chamberlain had previously given the House estimates of outstanding assets. Loans to Dominions totalled £119½ millions, loans to Allies and relief loans

amounted to £1,767 millions, which he very optimistically suggested might be reckoned as in former years at one-half the face value, while there was an outstanding balance of £21 millions to be received from India. Vote of Credit assets estimated at £300 millions, together with £400 millions in respect of excess profits duty which would remain unpaid at the end of the current year, brought the total assets, according to his calculations, to the sum of £1,724 millions. This, he declared, together with any reparation payments obtained, would form an additional reserve for the reduction of debt.

As the result of the budget changes, said Mr. Chamberlain, in conclusion, " there is every prospect next year that there will be available for the reduction of debt a sum of £300 millions, of which one-half at any rate should be free for the floating debt, and with the advent of a ' normal year,' when temporary and extraordinary receipts and charges have both terminated, and on the assumption that the excess profits duty had also been brought to an end, there should be available for the sinking fund a balance of not less than £180 millions. We were told on Saturday that two such budgets might destroy the Empire. I will not stop to retort that twenty such budgets would redeem the whole of our debt. I am content to say that after such a war as that in which we have been engaged, and after such gigantic financial sacrifices, this is a position of unexampled and unequalled strength. It is true that to attain it we are obliged to impose fresh taxes and to call for further sacrifices. That may not bring popularity to the Government or to the Minister. I am proud to say that we have not

sought it. Our object has been to rise to the level of our great responsibilities, so that when we surrender the seals of office we may leave to our successors an ample revenue and to our country a national credit second to none."

That " two such budgets might destroy the Empire " had been the warning of Lord Rothermere, who, while disclaiming any spirit of active hostility to Mr. Lloyd George's administration, was running a Press campaign avowedly designed " to arouse both the nation and the Government to a perception of the economic calamities which must ensue if our public expenditure is not brought into closer relation with our diminished resources." Lord Rothermere, in a book dedicated to his son, the " first anti-Waste M.P.," subsequently re-published his series of articles under the unambiguous title of " Solvency or Downfall ? Squandermania and its Story." It will be remembered that the demand for drastic reductions in national expenditure, which had for some time been increasing in intensity, naturally became still more insistent during the now-approaching period of trade depression, and, finding expression in Parliament and the Press, in anti-Waste M.P.'s and leagues, eventually led to the appointment of the Geddes Committee. Mr. Chamberlain's failure to reduce expenditure was, as we shall see, the subject of much adverse comment in the ensuing budget debates.

The privilege of speaking first fell to Mr. Asquith, who paid a well-deserved compliment to the Chancellor's lucidity, and then, after a few remarks regarding procedure, resumed his seat. Sir F. Banbury, who followed, spoke at greater length, covering

most of the main points of the budget. He deprecated the raising of the income-tax exemption limit, and would rather have seen it lowered, for, said he, one of the evils of democracy is that the many impose taxes on the few. He expressed a more generally accepted view when he declared that it was easy to impose enormous taxation, but before doing so, greater efforts should have been made to reduce expenditure. Few of the budget proposals appeared to meet with his approval. He regretted the increase of the excess profits duty, the increase of the duty on registered stock which in his opinion would utterly destroy the market, and the unfortunate effect on the Allies of the increased wine duties. Concluding, he said that he did not wish to criticize the budget too much, but, on the whole, he was inclined to hope that there would not be many more budgets like it.

Sir Frederick was by no means the only Coalition Conservative to disapprove of Mr. Chamberlain's proposals, and many others rose later, prompted in most cases by opposition to the proposed increase in the excess profits duty. Sir J. Harmood-Banner, claiming to speak on behalf of the manufacturing and trading community, said they would have willingly accepted any tax on trading profits assessed before declaration of dividend or on turnover, but to have to pay excess profits duty at an increased rate and then be subject to this scorpion in the shape of the corporation profits tax, which they themselves had suggested, was unlikely to meet with the approval of the trading community.

Colonel Wedgwood, who had recently left one of the Liberal folds to join the Labour Party, described the

corporation profits tax as an admirable example of how not to raise revenue, and maintained that the duty, specially devised to exempt the landowner, was really an additional income-tax on those engaged in trade and industry who would transfer the burden to the consumer. The budget, he said, with the fervour of the ardent land-taxer, was a landowners' budget, including even the vehicle duties, which took from the landowners' shoulders the liability for roads, an hereditary burden upon the owners of landed property, subject to which they bought their land and sold it.

Another prominent land-taxer, Mr. Raffan, criticized the abandonment of the land value duties, and recalled the eloquence with which Mr. Lloyd George had driven home to the people of this country the evils of land monopoly and the efficacy of a system of land values taxation as a method of breaking down that monopoly power. Replying to the complaint that the Government had derived little assistance from the Select Committee recently set up to consider the question, of which he had been a member, Mr. Raffan asserted that it was not the fault of the Committee but was due to their restricted terms of reference which the Government had refused to extend. He admitted that the condemned duties had serious defects and had never been fully approved by the advocates of land taxation, but he stoutly denied the alleged impracticability of the taxation of land values, which in the Colonies was working smoothly and bringing in revenue.

The following day, the debate was opened by Mr. Asquith, who commented approvingly on the proportion of expenditure met by taxation since the

outbreak of war, and on the courage of the Chancellor's proposals for additional taxation, but emphasized the unnecessarily swollen character of the estimates and the need for drastic economy. Borrowing must cease, he said, and debt must be reduced, so that substantially increased taxation, as embodied in the budget, was essential, but what in his opinion was equally if not more essential, yet could not be obtained without both the co-operation and stimulus of the House of Commons, was the drastic reduction of public expenditure. Referring to the demise of the land duties, he ironically suggested that it was much to be regretted circumstances prevented the chief mourner—Mr. Lloyd George was at the time on the Continent—from attending the obsequies and giving a short farewell address at the graveside.

Mr. Clynes, the next speaker, while agreeing with much of what Mr. Asquith had said, gave voice to the Labour opinion that the financial policy of the War Governments was open to the vital objection that they borrowed too much and entered into too many commitments which had now to be faced. This borrowing policy, he said, had not been altered by the Government on its own initiative, but borrowing had had to cease because the country had refused to continue to lend. On behalf of the Labour Party he welcomed two or three of the more courageous of the budget proposals, but expressed their disappointment that the Chancellor had given so little attention to the capital levy, and declared that the working classes were not so likely to submit to the burdens of borrowed money as did their predecessors in the periods following previous wars.

Further commendation for the Chancellor's proposals came from Mr. Seddon, who, however, expressed his dissatisfaction that Mr. Chamberlain, while imposing further heavy burdens on the beer consumer, had failed to tax mineral waters. He agreed that a tax on non-intoxicating beverages offered difficult problems, but a tax on aerated waters, he said, which are entirely manufactured, not in the homes of the people but in manufactories, would be an easy proposition, and he failed to understand why the teetotallers were let off scot-free. This was taken up by Sir William Joynson-Hicks, who said that, speaking as a teetotaller, he would welcome an opportunity for teetotallers to take their share in this kind of taxation. He had often wondered, he continued, why the Government had never charged teetotallers something on such drinks as soda water and ginger beer. An interesting discussion on this subject might have taken place had not Mr. Baldwin intervened to point out that nearly £1½ millions was being obtained annually from those and similar beverages, by means of the table water duty which had been imposed four years earlier.

Sir William went on to make one of the most interesting speeches of the day. It would be a much greater achievement, he remarked, if the Chancellor of the Exchequer could have reduced expenditure by £200 millions instead of providing a similar sum by additional taxation. He pointed out that the Government, possessing a huge majority, was the real authority in the House, and under such circumstances, he contended, it was useless for Mr. Chamberlain to plead that the House was responsible for excessive

expenditure. Turning to the proposed revision of the vehicle licence duties and abolition of the motor spirit duty, Sir William put up a good case for the retention of the existing system. He commented on the absence, in the proposed scheme, of any tax on road vehicles such as the huge waggons with iron-shod wheels which cut up the roads far more than rubber-tyred wheels, and asked why, if the Government were going back to the old system of the turnpike where each vehicle paid its share of the cost, all vehicles were not included in the budget proposals.

Sir Eric Geddes, Minister of Transport, replying, said that petrol was a bad measure of the use of roads, although a good measure as between vehicles which used petrol alone, while from the administrative point of view, the petrol tax was unsound, firstly, because, owing to the existence of substitutes, it was so easily evaded; secondly, because so many exceptions had to be made; and thirdly, because it was very expensive to collect. With regard to the absence of taxation of horse-drawn vehicles, Sir Eric asserted that the roads were being improved, and the money spent, because of the development of mechanical traction of all kinds. One must consider, he continued, how very considerably horse haulage paid, directly and indirectly, towards the rates which contributed largely to road maintenance, and it would be inequitable, he suggested, to put an additional burden on the agricultural community and to make them pay for the construction of roads which they did not want and which were unsuitable for their horses. After further discussion, in which the corporation profits tax received surprisingly little attention, while the

proposed increase of excess profits duty and the abolition of the land value duties met with a good deal of criticism, the debate was adjourned.

The outstanding speech of the following day was that of Mr. Chamberlain. Replying to various queries which had been made, he said that the corporation profits tax would apply to co-operative societies, an announcement which met with a very unfavourable reception from certain quarters of the House. Replying to further criticisms, he again reminded his listeners that profits of companies put to reserve and subsequently distributed in the form of bonus shares, although subject to income-tax, escaped assessment for super-tax, and he claimed that the corporation profits tax might be regarded as a composition in lieu of super-tax as it would be imposed on the sums first placed to reserve and would thus correct the avoidance of super-tax. This line of reasoning would clearly not bear too close a scrutiny, but it encountered less criticism than might have been expected under the circumstances. One point seized on by critics was the inclusion of sales from war stores and other miscellaneous revenue in the revenue side of the national balance sheet instead of treating it as capital, but the Chancellor countered with the remark that if the sums in question were not used for the reduction of debt, they were used for the reduction of borrowing, and followed this up by asking why in this year all the abnormal charges due to the war should be borne and no credit taken for the abnormal receipts.

He then turned to discuss the excess profits duty, and the House was immediately all attention. Since the budget, there had been a violent Press campaign—

in which several Ministerial organs had taken part—for the withdrawal of the proposal to increase the duty from 40 to 60 per cent., and a rumour had been published in the morning papers to the effect that the Chancellor had given way. The hopes thus raised in certain quarters were dashed to the ground, for Mr. Chamberlain definitely contradicted the rumour, and declared that by the proposed increase " I stand or fall." He admitted once again the real defects of the duty, and the impossibility of retaining it as a permanent tax, but what alternative was there? Neither a capital levy nor a levy on war wealth was in his opinion free from objection, and either, if unduly heavy, would not only injure industry but would destroy credit and might very seriously affect our financial stability. He repeated his promise, however, for what it was worth, that if the inquiry into the increases of war wealth resulted in practicable proposals acceptable to the House, he would be willing to forego the 20 per cent. increase.

On April 27th, the resolutions were reported, and all of them, with the exception of those relating to the excess profits duty and corporation profits tax, were agreed to. The greater part of the discussion which took place centred round the new system of licences on mechanically propelled vehicles, and that hardy annual, the so-called tax on marriage.

On the following day, the excess profits duty resolution gave the numerous and disappointed opponents of the increase the opportunity of voicing their many objections. Mr. George Terrell set the ball rolling with a motion to abolish the duty. A subsequent speaker declared that if the Chancellor

would repeal the duty, give up any idea of a levy on war wealth, and decide to get the money he required from income-tax, super-tax, and by doubling the corporation profits tax, he could by these means get more money and at the same time secure the confidence of the business community. Various other speeches were made in favour of the repeal of the duty, one speaker pointing out that if the excess profits duty were abolished, the revenue from the duty would not be entirely lost as the profits assessed to income-tax and super-tax would be thereby increased. He might have added that the yield of the corporation profits tax would also have been similarly increased. The attack upon the excess profits duty was viewed with disfavour by the Labour Party, one of whose Members remarked that such a resolution as the one before the House would add considerably to the subdued insurrectionary feeling which, he suggested, was the predominant sentiment amongst the working classes of the country.

Mr. Baldwin, who intervened at an early stage of the discussion, endeavoured to placate the opponents of the duty and announced that the Chancellor was fully prepared to make substantial concessions to the small man and the new man. Striking a somewhat different note, he said he was very tired of hearing about the death of the goose that laid the golden eggs, and while admitting that it might be a matter for regret if the goose laid rather smaller eggs or if people thought the Government took too many of them, he pointed out that there was the further danger that the goose might try to lay too large a golden egg, with a rather disastrous result on the goose. He concluded by

saying that he could not see how Members in business could, in view of the heavy indirect taxation on beer and tea and sugar, come to the House and say to the Chancellor of the Exchequer, "No, keep your beer tax, your tea and sugar tax, and all those taxes on; but our excess profits— No, we are going to vote against you, and we will turn you out rather than pay it."

Mr. Chamberlain, who spoke later, affirmed that he would gladly accept any better alternative to the excess profits duty, but none, he said, could be found. The Federation of British Industries had suggested a flat rate on profits—not solely the profits of industry assessed to the excess profits duty, but all earnings from trade, agriculture, and the professions, which, he pointed out, was not an alternative but merely meant shifting the burden on to other shoulders. At the request of the Chancellor, many amendments on the paper were not moved, in order that the little time remaining before 8.15 p.m., when other business was to be taken, might be devoted to the corporation profits tax. After less than half an hour's debate—a remarkably short discussion for a new tax of this magnitude—the corporation profits tax resolution was agreed to, whereupon the Bill was ordered to be brought in and read for the first time.

The second reading debate was opened by Mr. Bottomley, who moved the rejection of the Bill on the grounds that the budget was bad, the figures on which it was based absolutely false, and many of the Chancellor's predictions grotesque. He criticized what he considered to be further defects, namely, the obsession to hasten the repayment of debt, the

insufficient reduction of expenditure, and the breach of Ministerial faith in increasing the excess profits duty. After pressing for further consideration of Premium Bonds, he adumbrated various schemes—some good and some indifferent—for tapping new sources of revenue, ranging from bank balances and unclaimed securities to racing and betting. The *pièce de résistance* was a tax on capital. "Let every citizen, . . ." he said, "make a return on a simple form about the size of a piece of notepaper, of the excess of his assets over his liabilities, and let him be charged 1s. in the £ on that. The Treasury would have the right to check this return. The public wealth of this country has been said to amount to £20,000 millions. If you had a 5 per cent. tax, that would bring in £1,000 millions. This plan is quite workable and would hurt no one. I should be prepared to hand over the form to the Chancellor of the Exchequer, and to organize the thing. The whole thing could be done in a month, at a very low cost, if he would like me to do it." And the Chancellor failed to avail himself of the offer!

Mr. Chamberlain replied at some length to the charges of waste and extravagance levelled against the Government. With regard to the Civil Service estimates, he declared that after deducting the cost of new services and £120 millions for war pensions, the remainder represented only about 150 per cent. above the pre-war charges for similar services, and this, in view of the rise in prices, could not be regarded as excessive. "Some people talk and write," he said, "as if the whole of this, or a large portion of it, were spent by the Government in keeping a horde

of useless, idle, and wasteful employees occupying buildings which would be much better handed over to some other purpose. I have served in more than one Department, and I cannot say how strongly I resent and how bitterly I feel these constant attacks upon the Civil Service." In reply to Mr. Bottomley's demand that the Chancellor should not act merely as a paymaster to the spending departments, but should inform them how much, and no more, they could have, he pointed out that policy—which is, after all, the dominant factor controlling expenditure—was a question which he alone could not decide and for which the whole of the Cabinet was, and must be, responsible. He added that they had, through the Finance Committee of the Cabinet, investigated the expenditure of particular departments, and he promised that everything possible should be done towards eliminating any remaining extravagance or waste.

The remaining speeches were concerned mainly with the question of Government extravagance, the increase of the excess profits duty, and the application of the corporation profits tax to co-operative societies. Mr. Remer, speaking in favour of a graduated profits tax, maintained that a valuation of capital, involving a serious expenditure of time and money, was not an essential part of the scheme. He adumbrated a tax whereby a trading concern's profits of £20,000 or under would be taxed at a flat rate of 3s. in the £, profits from £20,000 to £100,000 at the rate of 5s., and in all other cases, at the rate of 7s. 6d. in the £. Such a scheme, he claimed, imposed in an equitable manner on all traders, making the big concerns pay the highest rate of tax, would meet with the unanimous

approval of the business community of the country. But, while the advantages of such a tax and its chances of popularity were, to say the least, doubtful, its disadvantages were manifest, and the suggestion was definitely turned down by Mr. Chamberlain.

One of the many voices raised in protest against the application of the corporation profits tax to co-operative societies was that of Mr. Aneurin Williams, who traversed the contention of a previous speaker that if the whole business of the country were done co-operatively, there would be no revenue from the income-tax. Firstly, he said, there would be a large amount of capital in the hands of the co-operative societies, and the income-tax paid on the interest alone would be enormous; secondly, well-being would be more widespread, and although the yield of income-tax might fall, there would be far more money from small luxury taxes, death duties, and so on; and, finally, the whole of the foreign trade would presumably be subject to income-tax. In the course of some interesting remarks on the taxation of table waters, Mr. Williams amused the House with the story of the street corner orator who, endeavouring to prove the inequity and burdensome character of certain indirect taxes, asked rhetorically, " If a man consumed a sovereign's worth of tobacco, a sovereign's worth of wine, a sovereign's worth of beer and a sovereign's worth of spirits, what duties would he pay ? " Before the orator could himself reply, the answer came from one of the audience, " Death duties."

Upon the resumption of the debate on the following day, Mr. G. Terrell, who was taking a prominent part in the attack on the excess profits duty, opened with

a speech denouncing the proposed increase. It was, he said, an unjust proposal which rankled in the mind of the tax-payer, and unless the Chancellor modified his proposals, the Finance Bill would encounter the most vigorous opposition at every stage of its progress.

One of the ablest speeches of the day came from Mr. William Graham, who was beginning to be recognized as a likely candidate for the Chancellorship of the Exchequer in some future Labour Government. While admitting that the budget proposals made substantial improvements in our income-tax system, he contended that there still remained one or two defects, while as regards the super-tax, he argued that it could probably be carried still higher without any injustice to the persons concerned. He had little to say in favour of the excess profits duty, which he regarded as a bad, wasteful and useless tax, but his main criticisms were directed against the extension of the corporation profits tax to co-operative societies. Mr. Chamberlain's proposal, which was to impose the tax only on that part of a society's profits not distributed as dividends to members, was based on the Report of the Royal Commission on the Income-tax, which had recommended that any part of a society's net proceeds not actually returned to members as dividends should be liable to income-tax. This, however, said Mr. Graham, was illogical in that the liability of profits to duty depended not on their origin but on the use to which they were put, a test not applied to any other class of receipts. He was able to quote in support of this line of argument a Reservation to the Royal Commission's Report signed by seven members, including Professor Pigou, Sir N. F. Warren Fisher,

and himself. Further objections to the corporation profits tax, he said, were that it unnecessarily multiplied the taxes of the country and that it was a tax on aggregates and not on individuals. Labour, he added, stood for the simplest possible system of taxation, a principle which the Finance Bill violated, but they believed it necessary on grounds of expediency and acute public need to pass the Bill, and, whatever might be their private reservations and numerous amendments at the Committee stage, the Labour Party did not intend to vote against the second reading.

There was scarcely a speech during the debate which did not emphasize the need for Government economy, and when Mr. Baldwin rose as the discussion neared its close, he dealt in detail with the subject. He pointed out that the expenditure on the fighting services had been materially increased by the delay in concluding peace with the Ottoman Empire, and contended that no substantial economies were possible on the normal services. The only hope of any saving, he continued, lay in the direction of the £205 millions of charges which still remained from the war services, and he reiterated that the Government had definitely promised to get rid of the remaining subsidies at the earliest possible moment. Having given various reasons in favour of an early reduction of the debt, and expressed the hope that the corporation profits tax might at no distant date take the place of the excess profits duty, Mr. Baldwin concluded with a request to Mr. Bottomley not to divide the House, because, he said, a unanimous vote on the Bill's second reading would have a great effect outside. Mr.

Bottomley accordingly withdrew his amendment, and the Bill was subsequently read a second time without a division.

The first day in Committee opened with the usual debate on the tea duty, the usual repetition of arguments, and the usual result. There followed what was destined to become another annual affair, the debate on the continuation of the McKenna Duties on motor cars, musical instruments, films, clocks and watches. The free traders declared that these protective taxes, imposed merely as war taxes, should be immediately abolished. To this Mr. Chamberlain replied that it was purely on revenue grounds, and not as part of any larger trade policy, that it was decided—not by himself alone but by the Cabinet—to continue these taxes for another year. The conditions which gave rise to their existence still continued, he said, and, when framing the budget, he did not consider the removal of a tax which was an efficient revenue producer, as he was engaged on the more difficult problem of how to find sources of additional revenue.

The next day, when the new duties on wine came before the House, the Chancellor announced his willingness to reduce the proposed *ad valorem* duty on sparkling wines from 50 to $33\frac{1}{3}$ per cent., mainly, it appeared, because of representations from M. Millerand on behalf of the Rheims district. Mr. Chamberlain had entered the House with the intention of suggesting a similar reduction in the proposed *ad valorem* duty on cigars, but changed his mind owing to the hostility displayed towards the reduction of the champagne duty.

Later in the day, the proposal to revise the system of vehicle licence duties and to abolish the motor spirit duty was again attacked by Sir William Joynson-Hicks, who claimed to speak on behalf of the Automobile Association and many other organizations. He made it clear, however, that what they objected to was merely the proposed method of taxation, and not the fact that additional revenue was to be obtained from motorists, who were, he said, quite willing to provide the extra revenue if it were obtained by means of an increase in the existing motor spirit duty. Sir Eric Geddes retorted that the manufacturers, the commercial users, and the Royal Automobile Club were all in favour of the budget proposals, and declared that the lengthy debate urging the Government to reconsider the matter was simply because one association—the A.A.—was against the new system of licences.

The following day was spent mainly on the various income-tax proposals. Mr. Chamberlain explained that the differentiation between single and married people was an attempt to conform to the principle of ability to pay, and was not intended as a penalty or reflection on bachelors or spinsters, with whom those who were married—of whom he was one—had unlimited sympathy. Mr. Locker-Lampson pointed out that under the new proposals in connection with the assessment of husband and wife, the burden in certain cases would be increased instead of decreased. Under the existing law, in the case of a husband and wife with a joint income not exceeding £500, the wife might be assessed separately in respect of her earned income, if any, which meant in many cases that she

escaped liability for tax. Under the budget proposals, the wife's relief was limited to £45. Mr. Chamberlain admitted the hardship in such cases, but contended that the effect of the changes in the law was broadly to give very substantial relief to the lower classes of income-tax payers, and refused to accept the principle that no one should be worse off.

The fourth day in Committee—a trying one for the Treasury Bench—was expended on the excess profits duty. Mr. George Terrell began another slashing attack on the budget proposal by moving that the rate remain at 40 per cent. The proposed increase, he said, had already done incalculable harm to British credit and industry, and as it was not necessary for this year's finances, the re-imposition of the duty should be postponed until other proposals had been carefully and thoroughly examined. Mr. Terrell threw out the hint, which was taken up by a later speaker, that the proposal to increase the excess profits duty was an eleventh-hour idea, for which Mr. Chamberlain was not responsible, and which was intended as a sop to those who clamoured for a capital levy or nationalization.

This provoked the Chancellor to reply that these two speakers " were inclined as a result of some public rumours abroad to distinguish between my responsibility and that of my colleagues for this budget. Both of them suggested that the decision in regard to the excess profits duty was an eleventh-hour decision, or a decision at the last moment. If any Minister has a greater responsibility than another for the Finance Bill it must be the Chancellor of the Exchequer, and it is quite certain that he cannot

have less responsibility than all his colleagues. I ventured to interrupt my hon. friend and to say not merely that I accepted, but that I accepted my full share of responsibility for this budget. I listened to the suggestions of my colleagues, and I met or accepted their criticisms as I listen to suggestions of Members here and meet and accept their criticisms, and no decision was taken without me as a full assenting party, even if I was not myself the originator of it. That must always be the position in regard to the Finance Bill. That is a responsibility which the Chancellor of the Exchequer must take, or he must vacate his office." He then repeated in detail the reasons he had previously given for declining to give way to the agitation against the excess profits proposal, and attempted to soothe the malcontents by promising that if the Government remained in power, the duty should not the next year exceed 40 per cent.

Since the budget, a change had taken place in economic conditions, and the period of financial stringency through which the country was passing was by many speakers not only attributed to the proposal to increase the excess profits duty, but was advanced as a reason why the proposal should be dropped. Mr. Baldwin, however, controverted the view that the increased duty had any connection with the financial stringency, and went on to emphasize the need for the increased revenue, assuring the Committee that " there is no better work they can do for the finances of their country at this time than to give all the backing in their power to the Chancellor of the Exchequer, who is fighting one of the hardest battles any man has ever had to fight, and not only

that, but he is fighting it against every form of abuse and obloquy that is being hurled at him." The discussion had lasted more than six hours, and was now brought to an end by the closure. In the subsequent division on Mr. Terrell's amendment, the Government had 289 supporters, amongst whom were several Opposition Members, while in the other lobby were 117 Members, 90 per cent. of whom were Coalitionists.

Mr. Billing, speaking later, alleged that the proposed increase in the excess profits duty was originated by the Prime Minister and Sir Laming Worthington-Evans, who, it was rumoured, was going to take the place of Mr. Chamberlain. It was suggested in the Press that the responsibility for the attack on Mr. Chamberlain lay on Mr. Lloyd George, who, however, subsequently hotly repudiated the suggestion.

Another lively debate took place on the following day when the corporation profits tax was severely attacked, mainly by spokesmen for the co-operative societies. Mr. Kidd, in a forcible speech, moved to exempt profits, arising from trading with its own members, of any society registered under the Industrial and Provident Acts. Mr. Chamberlain, emphasizing the fact that the profits of these societies distributed as dividends would be exempt, and only the profits not so used would be taxed, suggested that the intense opposition of the co-operative societies was due not so much to the mere imposition of the tax as to the fear that it would prejudice a decision upon the societies' liability to income-tax. This fear, he suggested, was without foundation. This apparently failed to remove all doubts, for a little

later Mr. Myers rose and declared that as soon as the tax was on the statute book, the agitation would continue until a further burden was put on the co-operative societies. The tax, he said, was the culminating point of a long and persistent agitation by those who feared the competition of the co-operative movement.

A protracted debate took place on Mr. Kidd's amendment, and once again the aid of the closure had to be invoked. Further amendments were moved, and during the ensuing discussion the Chancellor announced his willingness to suspend for three years the operation of the tax so far as public utility companies were concerned. These companies, he explained, nearly all of which were the subject of legislation or proposed legislation intended to enable them to adjust their circumstances to the new economic conditions, were in the peculiar position that they could not adjust themselves to a new business expense such as the proposed corporation profits tax.

Trenchant criticism of the new tax came from Mr. Pretyman, who had been a member of the Royal Commission on the Income-tax, and who protested against the introduction of a tax without exemptions or abatements after the Commission had for a year and a half tried to equalize income-tax and to apportion it exactly, with abatements and exemptions, according to the tax-payer's ability to pay. If, he added, it were intended to deal with the question of super-tax avoidance through accumulated reserves, the tax was useless, because the super-tax payer might just as well be the owner of debentures or preference

shares, which were exempt, as of ordinary stock. It was not sound finance, he concluded, to impose unfair taxation on a large scale merely to meet relatively unimportant evasion or difficulties which were of far less importance than the evils of the tax itself.

Sir J. Harmood-Banner, explaining the origin of the tax, said he had been a party to introducing a deputation to the Chancellor when the tax was suggested as an alternative to the excess profits duty, but, to the astonishment of the business community, the budget not only increased the latter duty but also introduced the new tax. To his question asking whether it was intended to continue both duties indefinitely, Mr. Baldwin replied with a definite negative, assuring him that the idea in the mind of the Chancellor when imposing the tax was to introduce an impost on industry which might remain when the excess profits duty was repealed, and which would help to provide the increased revenue necessary for many years to come. During the whole of the debate, scarcely a voice was heard in favour of the new tax on corporation profits, and when at midnight the Committee divided on the clause, the Government majority fell to 46, nearly a hundred Members going into the Opposition lobby.

The repeal of the land value duties provided the theme on the following day for five or six hours of piquant controversy. Mr. Raffan, who had played an important part in the taxation of land values movement, made an impassioned plea for the retention of the duties, alleging that there could be no reason other than purely political motives for their abolition. In 1913, he said, Mr. Lloyd George held the view that

the valuation should be strengthened, not abandoned, and the war had intensified, not diminished, the need and desirability of the taxation of land values, in that the need for revenue was greater while the value of the land had substantially increased. The movement for the taxation of land values, he averred, had touched the hearts of the people, and those who thought that this would be the end of the movement were doubly mistaken.

Mr. Raffan's protest was supported by Mr. Asquith, who, giving a detailed history of the duties, commented on the rarity of such a direct reversion of policy deliberately adopted by preceding Parliaments. The introduction of the taxation of land values was, he added, a policy deliberately conceived and subjected to an amount of Cabinet deliberation such as had hardly ever been applied to any other specific political topic. And he looked in vain, he said, on the Treasury Bench for any Liberal Ministers who, had they been present, might have explained why the gospel of land taxation which, in 1909, they had preached so fervently should now be abjured.

A somewhat different view of the origin of the duties was given by Colonel Wedgwood, who asserted that the Asquith Government introduced these taxes only under the compulsion of external forces and in the face of very strong opposition inside their own party, while, during their passage through the House, the duties were amended out of all recognition and rendered unworkable. He suggested that the condemned duties should be replaced by duties which were seriously meant, which would bring in a substantial revenue, and which would above all bring down the

value of land—in his opinion the most important function of such taxation.

Replying to these criticisms, Mr. Chamberlain had little to add to his previous declarations. He reiterated that owing to difficulties of valuation, administrative complexities, public opposition and adverse judicial decisions, the duties were unworkable, supporting his contention with the Memorandum on the subject—termed by him a cold and damning document—presented by the Deputy Chairman of the Board of Inland Revenue. To the suggestion that a simple Bill would suffice to render the duties workable, he retorted that, even if he thought such action desirable, he had more than enough work on his hands in connection with the budget. The failure of the duties, he went on, was the inevitable result of trying to apply simple theories from new countries to the complicated conditions of an old country, and the Cabinet like sensible men had agreed to face the facts and admit failure. Mr. Chamberlain countered the taunt that his chief had shed the last semblance of Liberalism, with the remark that Mr. Lloyd George had the quality, not given to every man, that in middle age and after middle age he could still learn. The lengthy debate, in which questions of political history and inconsistencies were the main topics, was finally brought to an end by Mr. Bonar Law rising and claiming to move " That the question be now put."

In spite of late sittings, the Bill's passage was now falling behind the time-table, and for the remainder of the evening discussion was by mutual agreement reduced to a minimum. Before the House adjourned at two minutes to two o'clock, several clauses were

agreed to after little debate. These included clauses put down to fulfil the pledges from the Treasury Bench that the burden of the excess profits duty on new and small businesses should be alleviated. Mr. Chamberlain, introducing the concessional clauses, explained that the statutory percentage on increased capital and capital in new businesses would be increased from 9 to 10 per cent. at a cost of £4 millions in a full year, the small businesses allowance would be increased at a cost of £5 millions, and a new relief, at a cost of £5¼ millions, would be granted to small private businesses, including private limited companies conducted by the proprietors. Sir P. Lloyd-Greame subsequently moved that the new statutory percentage should be still further increased to 12 per cent., and Mr. Chamberlain, although refusing to go as far as this, agreed that the rate should be increased to 11 per cent., at an estimated cost of a further £4 millions in a full year. The prime movers in the agitation against the excess profits duty might well congratulate themselves on the results of their efforts, seeing that they had now secured concessions worth over eighteen millions in a full year.

The Bill's last day in Committee opened with new clauses—gestures from the Independent Liberals—proposing wholly or partially to repeal Imperial Preference, but little that was new emerged from the ensuing debate, the usual arguments being met by the customary counter-arguments. The most interesting and fruitful of the many new clauses brought forward during the day was that moved by Lt.-Col. Guinness to exempt from income- and super-tax any sums, not exceeding 5 per cent. of a tax-payer's total income,

devoted to charitable purposes. Such a proposal, desirable as it might seem at first sight, had certain objectionable features, apart from the loss of revenue involved. Not only would it have been practically indistinguishable from a partial State subsidization of the services concerned, but it would have meant that the richer the tax-payer, the greater the share of his subscription which would in reality have to be paid by the State. A gift of £1 from a poor man would mean to him an actual loss of £1, but a similar sum given by a rich man would mean that the donor would lose only eight shillings, the State having to provide the remainder.

Although declining to consider the proposal in connection with income- or super-tax, Mr. Chamberlain signified his willingness to make a concession in regard to the excess profits duty. He proposed that where contributions were made to assist the poor or the sick, or for the advancement of education or scientific research, a deduction equivalent to one-fifth of such contributions should be made from the profits liable to excess profits duty. Such deduction, however, was to be limited to a maximum of 1 per cent. of the computed profits. He explained that the abnormal conditions which had given rise to the excess profits duty had also brought financial difficulties to many charitable institutions—subscriptions to which had undoubtedly been adversely affected by the duty at a time when the administrative expenses of these institutions had been seriously increased—and he suggested that this concession might be regarded in some measure as a partial act of justice to the hospitals and other institutions concerned.

The report stage of the Bill provided the opportunity for further protests against the new licence duties on mechanically propelled vehicles and the increased duties on cigars and beer. As a result of criticism, the vehicle duties were restricted to vehicles actually used on public roads, thus exempting those used solely in factories, railway stations or other private places, an amendment which was manifestly desirable seeing that the duties were intended primarily to meet the cost of maintaining public roads.

A further attack on the corporation profits tax was initiated by Colonel Wedgwood, who moved its rejection. He objected to the tax, he said, because it would be an overhead charge in a business and would in the long run have to be paid by the consumer, because of its arbitrary effects on investors, and because of its injustice in exempting some of the people such as farmers who had made most money out of the war, and he went so far as to allege that the tax had been specially devised so that farmers should escape. That it was an indirect tax was acknowledged, he contended, by the special treatment conceded to the public utility companies who were unable to shift the tax to the consumer.

Opposition to the tax made strange bedfellows. Colonel Wedgwood's motion was seconded by Sir John Marriott, then Coalition Unionist Member for Oxford, whose criticisms were directed mainly against the arbitrary incidence of the tax and against its imposition to supplement, instead of replace, the excess profits duty. After further hostile speeches from several Coalition Conservatives, a Coalition Liberal, an Independent Liberal, and a Labour

Member, the House divided, the Government managing to muster 177 supporters against a very mixed crowd of 122 in the other lobby.

Mr. Kidd then moved, for the second time, that industrial and provident societies should not be liable to the duty. Mr. Chamberlain declared that it was impossible to exempt them, adding that the growth and development of co-operative societies, by withdrawing so much business from the scope of existing taxes, made it unavoidable that by this tax if not by some other, they should contribute to the financial needs of the country. It had been suggested to him by friends of the movement that, instead of this tax, the indirect consequences of which were so much feared, he should impose a small percentage tax on the share capital of the co-operative societies, but it would be impossible, he said, to introduce this entirely novel proposal at such a late stage of the Bill.

The third reading debate, on July 28th, was opened by Mr. Bottomley, who moved to substitute for the motion before the House the words " That this House expresses regret that in making provision for supplies to the Crown for the year 1920-21, the Government should have ignored previous declarations of Ministers on questions of fiscal policy and further should have placed before Parliament misleading and untrustworthy estimates of revenue and expenditure." The predominant theme during the ensuing debate was Government expenditure.

Mr. Asquith, who apart from some remarks concerning the floating debt, confined himself almost entirely to the subject of expenditure, asserted that the real problem, a problem never more urgent and

never more difficult, was how the scale of expenditure might be curtailed. In an able analysis of our financial system, he laid stress on the difference between the functions of the Treasury in supervising departmental expenditure and the incomparably greater responsibility lying on the Government, and on the House of Commons supporting that Government, for all questions of policy involving expenditure. Dealing in detail with the functions of the Treasury, he said:

"The Treasury, to use a familiar phrase, is the constitutional watch-dog, but that does not absolve the individual Departments from their primary duties, before they submit expenditure, of examining it, winnowing it, criticizing it, and not passing it unless urgent considerations make it necessary to do so. The Treasury in pre-war days always subjected even the best-approved schemes of the Departments to the most vigilant, and, as I believe, the most effective scrutiny. Perhaps the House will forgive me if I give one illustration. The War Office had been removed from Pall Mall to Whitehall, and the proposal came across Whitehall one day to the Treasury to sanction the expenditure of a very small sum—I think it was £500, not more—for the construction of a subway under Whitehall from the War Office to the Treasury, the object being that, in the event of an invasion, the archives at the War Office might be safely transferred to a place where they would be more secure. This proposal went through the Treasury mill, and was carefully examined before it came to me. Sir George Murray was then Permanent Secretary. The proposal came to me with this minute, 'This proposal ought not to be allowed. The last objective of any intelligent invader of this country would be the War Office.' I give that only to show the vigilance—the microscopic and meticulous vigilance—with which, in those days, the Treasury discharged its functions as the watch-dog of public expenditure, and that is the proper way in which the Treasury ought to discharge its duties, as it always did before the war."

The question of Treasury control was taken up by Mr. Chamberlain, who declared he had no hesitation in saying that in all his long experience Treasury control was never better exercised than it was at that moment. On the question of foreign policy, he remarked that we could abandon Palestine and other places in the East and shirk our responsibilities everywhere, but he did not believe that by following such an ignoble policy the country could ensure security or even economy. With the abstract desire of the House for economy, he confessed he felt a little impatient, coupled as it was with the continuous and constant pressure, hour after hour, and day after day, in correspondence, in Bills and in motions, for increased expenditure in almost every field. But, he said, the Government was restricting needless expenditure of every kind, and must of necessity do so, for we were approaching, if we had not actually reached, the limit of our taxable capacity.

After a few more speeches, the Bill was read for the third time without a division. It passed the Upper House without delay and, but for a few minutes at the Committee stage, in silence. The third reading was taken on August 3rd, and on the following day the Bill passed on to the statute book.

The fact that this budget marked the high tide of war taxation gives it an outstanding importance, and a great deal was heard during its discussion of the courage of Mr. Chamberlain and the Government in having made so full a disclosure of the financial position and so resolute an attempt to meet it by increased taxation. If the validity of the financial and political considerations which seemed to dictate the necessity

of an expenditure and a revenue of such magnitude be admitted, the imposition of new taxation amounting in a full year to nearly £200 millions on a tax system the yield of which was approximately a thousand millions, may be held to justify the claim made by its author that the Government had risen to the level of their great responsibilities. But if a budget is to be judged by the effectiveness of the methods adopted, the verdict will be less favourable, and the criticisms which these aroused, more particularly as we have seen among supporters of the Government, were soon seen to be largely justified by the events.

A notable feature of the budget was the estimated surplus of £234 millions for the reduction of debt, an estimate of unprecedented magnitude which proved to be a close approximation to the actual result of the year's finances. As Mr. Chamberlain explained in his budget speech, it was hoped that nearly one-third of this surplus would be available for reducing the uncomfortably large floating debt, but, unfortunately, these hopes were not realized in spite of various expedients adopted. Amongst these may be mentioned the new Treasury Bonds issued at par, and repayable in 1935, or, at the option of either the Treasury or the bondholder, in or after 1925 upon due notice being given. An unusual feature of these bonds was the interest rate which was adjustable half-yearly—but subject to a minimum of 5 per cent. —according to the average rate at which Treasury Bills were being sold. This arrangement was designed to protect the bondholder against capital depreciation when short money rates were high, and, incidentally, to encourage the holder of Treasury Bills to convert

while at the same time protecting the Treasury against the necessity of paying a higher rate than 5 per cent. should money rates remain low. The issue was not, however, very successful, and this, coupled with various factors including the greater redemption of other debt, resulted in the reduction of the floating debt being one of the disappointing features of the year's finances.

Several changes made in the budget proved to be short-lived. The principal if not indeed almost the sole merit of the corporation profits tax was the production of revenue. It was designed to take a permanent place in the taxation system, but its inequitable and arbitrary incidence, which was accentuated by the friction and disturbance inseparable from a new impost, rendered it clearly unsuitable for such a purpose. Another mistake was the raising of the excess profits duty. The duty had been retained and increased avowedly in the expectation that trade would be good, with rising prices and high profits. But before the Finance Act was passed, the boom was slackening and it was followed by a deep depression involving enormous repayments from the Exchequer which would have been saved if the duty had been repealed this year instead of next year.

Two other apparent failures, the *ad valorem* duties on wine and cigars, which disappeared in the following year, were introduced rather as a makeweight to the heavy taxation of the poor man's beer and spirits than with a view to revenue. Just as in the case of the retention and increase of the excess profits duty, which was regarded by some of its supporters as an

alternative to the demand for a capital levy, financial considerations were here subordinated to political.

One lasting and beneficial reform indeed must be placed to the credit of this budget, namely, the transformation of the income-tax, which had lost its old simplicity and efficiency in the effort in recent years to adapt it to modern conceptions of ability to pay, and whose defects had been intensified by its great expansion during the war, into a coherent system in accordance with the recommendations of the Royal Commission.

BUDGET TABLES.

REVENUE.

	ESTIMATE.		RESULT: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	35,200,000	35,200,000	35,450,000	No changes in taxation proposed.
Excise	38,850,000	38,850,000	39,590,000	
Total Customs and Excise	74,050,000	74,050,000	75,040,000	
Estate, etc., Duties	26,750,000	26,750,000	27,359,000	
Stamps	9,800,000	9,800,000	9,966,000	
Land Tax	700,000	700,000	700,000	
House Duty	2,000,000	2,000,000	2,000,000	
Income-tax, including Super-tax	45,950,000	45,950,000	47,249,000	
Land Value Duties	750,000	750,000	715,000	
Total Inland Revenue	85,950,000	85,950,000	87,989,000	
Produce of Taxes	160,000,000	160,000,000	163,029,000	
Postal Service	21,125,000	21,125,000	21,190,000	
Telegraph Service	3,150,000	3,150,000	3,080,000	
Telephone Service	6,350,000	6,350,000	6,530,000	
Crown Lands	530,000	530,000	530,000	
Receipts from Suez Canal Shares and Sundry Loans	1,370,000	1,370,000	1,580,000	
Miscellaneous	2,300,000	2,300,000	2,304,000	
Produce of Non-Tax Revenue	34,825,000	34,825,000	35,214,000	
Total Revenue	194,825,000	194,825,000	198,243,000	
Sum to be taken from the Exchequer balances for Shipbuilding Arrears of 1911-12 and 1912-13	—	1,000,000	—	
	Total	195,825,000		

1914.

Mr. DAVID LLOYD GEORGE.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£	£	
Fixed Charge -	24,500,000	24,500,000	24,500,000	
Road Improvement Fund - - -	1,340,000	1,340,000	1,395,000	
Local Taxation Accounts - - -	9,665,000	9,665,000	9,734,000	
Other Consolidated Fund Services -	1,704,000	1,704,000	1,694,000	
Total Consolidated Fund Services - -	37,209,000	37,209,000	37,323,000	
Army (including Ordnance Factories) -	28,235,000	28,235,000	28,346,000	Supplementary estimates, Army - £196,000
Navy - - -	46,309,000	46,309,000	48,833,000	Navy - £2,500,000 (including £1,000,000 shipbuilding arrears from 1911-12 and 1912-13).
Civil Services - -	54,988,000	54,988,000	53,901,000	Civil Services, £675,000
Customs and Excise, and Inland Revenue	4,533,000	4,533,000	4,483,000	
Post Office Services -	24,366,000	24,366,000	24,607,000	
Total Supply Services -	158,431,000	158,431,000	160,170,000	
Totals - -	195,640,000	195,640,000	197,493,000	

Estimated Surplus - £185,000 (allowing for £1,000,000 reduction in Exchequer balances).

Realized ,, - - £750,000 (without such reduction).

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	35,350,000	35,350,000		Estate Duties.—Alteration in scale of duties on estates exceeding £60,000 in value (+£700,000); abolition of settlement estate duty (+£150,000); relief in cases of quick succession (−£50,000). Income-Tax.—Increase of maximum rate from 1s. 2d. to 1s. 4d. (+£5,120,000); increase of rates on earned incomes over £1,000 (+£330,000); Income-tax on Foreign Investments (+£250,000). Allowance for children doubled (−£200,000); increased allowance for repairs, etc., of land and small houses (no effect). Super-Tax. — Increased rates and extension to incomes of £3,000 to £5,000 (+£2,500,000).
Excise	39,650,000	39,650,000		
Total Customs and Excise	75,000,000	75,000,000		
Estate, etc., Duties	28,000,000	28,800,000		
Stamps	9,900,000	9,900,000		
Land Tax	700,000	700,000		
House Duty	2,000,000	2,000,000		
Income-Tax	45,250,000	50,750,000		
Super-Tax	3,300,000	5,800,000		
Land Value Duties	725,000	725,000		
Total Inland Revenue	89,875,000	98,675,000		
Produce of Taxes	164,875,000	173,675,000	*See Next Table.*	SUBSEQUENT CHANGES. 22nd June. Upon abandonment of local taxation grants, the proposed maximum rate of income-tax was reduced to 1s. 3d. At the same time, the estimates were revised as follows: Customs and Excise.—Improved estimates: tobacco (Customs +£150,000); spirits (Excise +£150,000); beer (Excise +£50,000). Estate Duties.—Allowance on death of surviving party to a marriage (−£30,000). Income-Tax.— Reduction of maximum rate from 1s. 4d. to 1s. 3d. (−£2,577,000); relief on small unearned incomes (−£52,000). Making the estimated total revenue (revised) £207,146,000. Further minor concessions affecting death duties were made subsequent to 22nd June (−£40,000).
Postal Service	21,750,000	21,750,000		
Telegraph Service	3,100,000	3,100,000		
Telephone Service	6,900,000	6,900,000		
Crown Lands	530,000	530,000		
Receipts from Suez Canal Shares and Sundry Loans	1,370,000	1,370,000		
Miscellaneous	2,130,000	2,130,000		
Produce of Non-Tax Revenue	35,780,000	35,780,000		
Total Revenue	200,655,000	209,455,000		

MR. DAVID LLOYD GEORGE.)

EXPENDITURE.

	ESTIMATE. According to Estimates presented.	ESTIMATE. After proposed Changes.	RESULT: Exchequer Issues.	
National Debt—	£	£		
Interest and Management	16,741,000	16,741,000		
Repayment of Capital	7,759,000	6,759,000		Decrease of Sinking Fund—£1,000,000.
Road Improvement Fund	1,545,000	1,545,000		
Local Taxation Accounts, etc.	9,885,000	9,885,000		
Other Consolidated Fund Services	1,706,000	1,706,000		
Total Consolidated Fund Services	37,636,000	36,636,000		
Army (including Ordnance Factories)	28,885,000	28,885,000		
Navy	51,550,000	51,550,000		
Civil Services	57,066,000	61,084,000	*See Next Table.*	Civil Services. Proposed grants: Insurance +£1,000,000 Education + £586,000 Public Health + £250,000 Local Taxation +£2,182,000
Customs and Excise, and Inland Revenue	4,696,000	4,821,000		Valuation +£80,000. Collection of proposed additional duties +£45,000.
Post Office Services	26,152,000	26,227,000		Post Office: Increase to low-wage employees, £75,000.
Total Supply Services	168,349,000	172,567,000		SUBSEQUENT CHANGES. On June 22nd, proposed local taxation grants (£2,182,000) were dropped. Civil Services estimate became £58,902,000. Total expenditure became £207,021,000.
Total	205,985,000	209,203,000		

Estimated Surplus - - - - £252,000.

" " (Revised) - - £125,000.

(SUPPLEMENTARY BUDGET, 17TH NOVEMBER, 1914.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	34,000,000	34,950,000	38,662,000	CUSTOMS AND EXCISE.—Tea duty increased from 5d. to 8d. per lb. (Customs +£950,000); beer duties increased, main duty from 7s. 9d. to 25s. (Customs no effect, Excise +£2,500,000); rebate to retailers of intoxicating liquor in respect of curtailment of hours of sale (Excise −£450,000).
Excise	37,350,000	39,400,000	42,313,000	
Total Customs and Excise	71,350,000	74,350,000	80,975,000	
Estate, etc., Duties	27,770,000	27,770,000	28,382,000	
Stamps	7,575,000	7,575,000	7,577,000	
Land Tax	700,000	700,000	630,000	
House Duty	2,000,000	2,000,000	1,930,000	
Income-Tax (including Super-Tax)	50,621,000	63,121,000	69,399,000	INCOME-TAX (including Super-Tax), rates doubled, (income-tax maximum 1s. 3d. to 2s. 6d.) increased rates being applicable for one-third only of current year (income-tax +£11,000,000, super-tax +£1,500,000).
Land Value Duties	350,000	350,000	412,000	
Total Inland Revenue	89,016,000	101,516,000	108,330,000	
Produce of Taxes	160,366,000	175,866,000	189,305,000	
Postal Service	20,200,000	20,200,000	20,400,000	SUBSEQUENT CHANGES.
Telegraph Service	3,000,000	3,000,000	3,000,000	
Telephone Service	6,330,000	6,330,000	6,250,000	CUSTOMS AND EXCISE.—Beer duty: rebate granted of 2s. per barrel up to March 31st, 1916, and then of 1s. up to March 31st, 1917 (Excise −£450,000).
Crown Lands	530,000	530,000	545,000	
Receipts from Suez Canal Shares and Sundry Loans	1,370,000	1,370,000	1,277,000	INCOME-TAX (including Super-Tax), concessions in respect of incomes affected by war, etc. (−£1,640,000).
Miscellaneous	4,000,000	4,000,000	5,917,000	
Produce of Non-Tax Revenue	35,430,000	35,430,000	37,389,000	
Total Revenue	195,796,000	211,296,000	226,694,000	

MR. DAVID LLOYD GEORGE.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£	£	
Fixed Charge -	23,500,000	20,750,000	20,497,000	Less part suspension of new sinking fund, £2,750,000.
Other Charges -	—	3,443,000	2,172,000	Interest, etc., on War Debt falling outside the Fixed Debt Charge.
Road Improvement Fund - - -	1,545,000	1,545,000	1,528,000	
Local Taxation Accounts - - -	9,885,000	9,885,000	9,529,000	
Other Consolidated Fund Services -	1,706,000	1,706,000	1,694,000	
Total Consolidated Fund Services - -	36,636,000	37,329,000	35,420,000	
Army (including Ordnance Factories) -	28,885,000	28,885,000	28,886,000	
Navy - - -	51,550,000	51,550,000	51,550,000	
Civil Services - -	58,885,000	58,885,000	56,956,000	Supplementary estimate presented for £223,000.
Customs and Excise, and Inland Revenue	4,741,000	4,741,000	4,602,000	
Post Office Services -	26,227,000	26,227,000	26,060,000	
Total Supply Services -	170,288,000	170,288,000	168,054,000	
Votes of Credit - -	—	325,000,000	357,000,000	Votes of Credit— Aug. 8th, £100,000,000 Nov. 17th, £225,000,000 Supplementary estimate presented for £37,000,000.
Total - -	206,924,000	532,617,000	560,474,000	

Estimated Deficiency to be made good out of loans - £321,321,000.
Realized Deficit - - - - - - - - £333,780,000.

REVENUE.

	ESTIMATE.		RESULT: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£		
Customs	37,450,000	38,950,000		CUSTOMS AND EXCISE.—Wine duties: rates quadrupled (Customs +£1,500,000); spirit duty doubled (estimated effect on receipts, *nil*); beer duty, surtax on heavier beers (Excise +£1,600,000). These proposals were part of the Government scheme of liquor control announced on April 29th, 1915.
Excise	54,650,000	56,250,000		
Total Customs and Excise	92,100,000	95,200,000		
Estate, etc., Duties	28,000,000	28,000,000		INCOME-TAX.—Two small changes in the income-tax were proposed in the budget: (1) Separate assessment of life assurance business of insurance companies, (2) limitation of income-tax relief in respect of insurance short term endowment policies, but no estimate of their effect upon the revenue was given.
Stamps	6,500,000	6,500,000		
Land Tax	660,000	660,000		
House Duty	1,990,000	1,990,000		
Income-Tax	89,000,000	89,000,000		
Super-Tax	14,000,000	14,000,000		
Land Value Duties	350,000	350,000		
Total Inland Revenue	140,500,000	140,500,000		
Produce of Taxes	232,600,000	235,700,000	*See Next Table.*	
Postal Service	20,600,000	20,600,000		SUBSEQUENT CHANGES.
Telegraph Service	3,100,000	3,100,000		
Telephone Service	6,700,000	6,700,000		
Crown Lands	530,000	530,000		CUSTOMS AND EXCISE.—On May 11th, the Immature Spirits (Restriction) Bill was introduced, and the resolutions increasing the wine and beer duties negatived. On May 18th, the Bill passed third reading, the spirit duty resolutions were negatived, and new resolutions were passed imposing duties of 1s. and 1s. 6d. per gallon on spirits released in the third year of warehousing, and with less than two years' warehousing, respectively. As a result of these changes, the original estimates for Customs and Excise, £92,100,000, were re-adopted.
Receipts from Suez Canal Shares and Sundry Loans	2,002,000	2,002,000		
Miscellaneous	1,700,000	1,700,000		
Produce of Non-Tax Revenue	34,632,000	34,632,000		
Total Revenue	267,232,000	270,332,000		

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£		
Fixed Charge -	24,500,000	20,720,000		Proposed suspension of new sinking fund, £3,780,000.
Other Charges -	30,726,000 *24,750,000*	30,726,000 *24,750,000*		
Road Improvement Fund -	1,431,000	1,431,000		
Local Taxation Accounts -	9,406,000	9,406,000		
Other Consolidated Fund Services -	1,697,000	1,697,000		
Total Consolidated Fund Services -	67,760,000 *61,784,000*	63,980,000 *58,004,000*		
Army (including Ordnance Factories) - -	15,000	15,000	*See Next Table.*	In this Budget was commenced the practice of having only Token Votes for the Army and Navy, the substantive provision being made under Votes of Credit.
Navy - - -	17,000	17,000		
Civil Services -	59,018,000	59,018,000		
Customs and Excise, and Inland Revenue - -	4,788,000	4,788,000		
Post Office Services - - -	26,836,000	26,836,000		
Total Supply Services - -	90,674,000	90,674,000		
Votes of Credit -	978,000,000 *638,000,000*	978,000,000 *638,000,000*		First Estimate. Army - £600,000,000 Navy - 146,000,000 Various - 32,000,000 Advances to Allies, etc. 200,000,000 Total - £978,000,000 Second Estimate. Army - £400,000,000 Navy - 120,000,000 Various - 18,000,000 Advances to Allies, etc. 100,000,000 Total - £638,000,000
Total - -	1,136,434,000 *790,458,000*	1,132,654,000 *786,678,000*		

Estimated Deficit to be made good by borrowing £862,322,000.
Realized Deficit. See next Table. *£516,346,000.*

Expenditure was estimated (1) on the assumption that the war lasted until March 31st, 1916, and (2) on the assumption that the war lasted only until September 30th, 1915. (*The latter figures are printed in italics.*)

(SUPPLEMENTARY BUDGET. 21st September, 1915.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	37,600,000	48,900,000	59,606,000	Customs and Excise.—Duties increased by one-half: tea (Customs +£1,900,000), cocoa, coffee and chicory (Customs +£140,000); dried fruits (Customs +£150,000); tobacco (Customs +£2,300,000, Excise −); sugar, main Customs rate increased from 1s. 10d. to 9s. 4d. per cwt. with proportionate increases on molasses, etc. (Customs +£5,270,000, Excise [including new Excise duty of 7s. on sugar] +£90,000); motor spirit duty increased by 3d. per gallon (Customs +£540,000, Excise +£10,000) proposed new import duties 33⅓ per cent. *ad valorem* or at corresponding specific rates: motor cars and cycles, +£600,000; films, +£200,000; clocks and parts, +£20,000; watches and parts, +£90,000; musical instruments, +£20,000; hats, +£40,000; plate glass, +£30,000. Patent medicine duty doubled (Excise +£100,000).
Excise	54,650,000	54,850,000	61,210,000	
Total Customs and Excise	92,250,000	103,750,000	120,816,000	
Estate, etc., Duties	30,000,000	30,000,000	31,035,000	
Stamps	6,500,000	6,500,000	6,764,000	
Land Tax	660,000	660,000	660,000	
House Duty	1,990,000	1,990,000	1,990,000	
Income-Tax and Super-Tax	103,000,000	116,424,000	128,320,000	Income-Tax and Super-Tax.—Income-tax, increase of 40 per cent. (applicable for only one-half of current year), payment by instalments allowed in certain cases +£11,274,000; reduction of exemption limit to £130, reduction of abatements, increased liability under Sch. B., no effect on current year's receipts. Super-tax, revised scale, +£2,150,000.
Proposed Excess Profits Duty	—	6,000,000	140,000	Excess Profits Duty.—Proposed 50 per cent. tax on excess profits, +£6,000,000.
Land Value Duties	350,000	350,000	363,000	
Total Inland Revenue	142,500,000	161,924,000	169,272,000	
Produce of Taxes	234,750,000	265,674,000	290,088,000	
Postal Service	22,700,000	24,205,000	24,100,000	Postal, etc., Charges.—Increased Post Office charges, +£1,980,000.
Telegraph Service	3,100,000	3,370,000	3,350,000	
Telephone Service	6,500,000	6,705,000	6,450,000	
Crown Lands	530,000	530,000	550,000	
Receipts from Suez Canal Shares, etc.	2,100,000	2,100,000	2,432,000	
Miscellaneous	2,430,000	2,430,000	9,797,000	
Produce of Non-Tax Revenue	37,360,000	39,340,000	46,679,000	
Total Revenue	272,110,000	305,014,000	336,767,000	

SUBSEQUENT CHANGES.

(No revised estimates issued.)

Customs and Excise.—Dried fruits, additional duty withdrawn in the case of currants; motor spirit allowance increased; patent medicine duty increase deferred until October 20th; proposed duties on hats and plate glass withdrawn.

Estate, etc., Duties.—Concessions in case of death due to war.

Income-Tax.—Children relief increased from £20 to £25 (−£200,000); concessions to soldiers and sailors.

Proposed Excess Profits Duty.—Exemption limit raised from £100 to £200; Duty operative from August 4th instead of September 1st, 1914; concessions regarding calculation of basal profits, etc.; corresponding duty on Excess Mineral Rights introduced.

Postal Charges.—Several changes abandoned.

MR. REGINALD McKENNA.)

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	As estimated in Balance Sheet, May 4th, 1915.	Revised Estimate, September 21st, 1915.		
National Debt—	£	£	£	
Fixed Charge -	20,720,000	22,055,000	20,338,000	
Other Charges -	30,726,000	45,030,000	39,911,000	
Road Improvement Fund -	1,431,000	525,000	694,000	
Local Taxation Accounts - -	9,406,000	9,600,000	9,757,000	
Other Consolidated Fund Services -	1,697,000	1,800,000	2,788,000	
Total Consolidated Fund Services -	63,980,000	79,010,000	73,488,000	
Army (including Ordnance Factories) - -	15,000	16,000	15,000	
Navy - - -	17,000	17,000	7,000	
Ministry of Munitions (including Ordnance Factories) - -	—	—	2,000	Supplementary estimate, £2,000.
Civil Services -	59,018,000	59,039,000	54,718,000	Supplementary estimate, £196,000.
Customs and Excise, and Inland Revenue - -	4,788,000	4,788,000	4,603,000	
Post Office Services - -	26,836,000	26,836,000	26,673,000	
Total Supply Services	90,674,000	90,696,000	86,018,000	
Votes of Credit -	978,000,000	1,420,000,000	1,399,652,000	Votes of Credit Estimates included: Navy, - £190,000,000 Army, - £715,000,000 External Advances, £423,000,000
Total - -	1,132,654,000	1,589,706,000	1,559,158,000	

Estimated Deficit - £1,284,692,000.
Realized ,, - - £1,222,391,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	61,250,000	71,000,000	70,561,000	CUSTOMS AND EXCISE.—Cocoa duties quadrupled (Customs +£1,350,000); coffee and chicory duties doubled (Customs +£300,000, Excise no effect); sugar duties increased, main duty 9s. 4d. to 14s. 0d. per cwt. (Customs +£6,850,000, Excise +£150,000); increased motor vehicle licence duties (Excise +£800,000); proposed duty on matches (Customs +£1,250,000, Excise +£750,000); proposed entertainments duty (Excise +£5,000,000); proposed duties on table waters, cider and perry (Excise +£2,000,000); proposed railway fare duty (Excise +£3,000,000).
Excise	53,300,000	65,000,000	56,380,000	
Total Customs and Excise	114,550,000	136,000,000	126,941,000	
Estate, etc., Duties	30,000,000	30,000,000	31,232,000	
Stamps	7,000,000	7,000,000	7,878,000	
Land Tax	660,000	660,000	640,000	
House Duty	1,990,000	1,990,000	1,940,000	
Income-Tax and Super-Tax	151,500,000	195,000,000	205,033,000	INCOME-TAX. — General rate increased from 3s. 6d. to 5s. 0d., but certain reliefs increased (+£43,500,000). Taxpayers paying by quarterly instalments given option to pay weekly by means of income-tax stamps to be affixed to cards.
Excess Profits Duty, etc.	75,000,000	86,000,000	139,920,000	EXCESS PROFITS DUTY.—Rate increased from 50 to 60 per cent., with corresponding increase in rate of excess mineral rights duty (+£11,000,000).
Land Value Duties	475,000	475,000	521,000	
Total Inland Revenue	266,625,000	321,125,000	387,164,000	
Produce of Taxes	381,175,000	457,125,000	514,105,000	
Postal Service	26,000,000	26,000,000	24,350,000	
Telegraph Service	3,250,000	3,250,000	3,350,000	
Telephone Service	6,850,000	6,850,000	6,400,000	
Crown Lands	550,000	550,000	650,000	
Receipts from Suez Canal Shares and Sundry Loans	5,000,000	5,000,000	8,056,000	
Miscellaneous	3,500,000	3,500,000	16,517,000	
Produce of Non-Tax Revenue	45,150,000	45,150,000	59,323,000	
Total Revenue	426,325,000	502,275,000	573,428,000	

SUBSEQUENT CHANGES.
(No revised estimates issued.)

CUSTOMS AND EXCISE:

Cocoa duties: quadrupled rates reduced from June 22nd to trebled rates for cocoa and cocoa butter, and doubled rates for husks and shells.

Table waters and cider: similar Customs duty imposed, owing to a change in the proposed method of collection; 10s. licence duty imposed on manufacturers; special rate of 2d. per gallon introduced for herb beer.

Matches: reduction on boxes containing over 80 matches; duties imposed on mechanical lighters.

Motor vehicle licence duties: proposed increases dropped and additional motor spirit *licence* duty of 6d. per gallon imposed instead.

Railway fare duty: proposal withdrawn.

INCOME-TAX.—Penal tax imposed in respect of certain foreign securities, and various concessions, including those in respect of naval and military pay, of unearned incomes up to £1,500, of certain insurance premiums, and extension of children relief to incomes exceeding £500 but not exceeding £700.

1917.

Mr. REGINALD McKENNA.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
National Debt—	£	£	£	
Fixed Charge -	* 12,818,000	12,818,000	19,783,000	* Assuming that the suspension of the new sinking fund would be continued.
Other Charges -	† 81,936,000	114,436,000	107,467,000	† On War Debt created up to March 31st, 1916.
Road Improvement Fund -	—	—	—	
Local Taxation Accounts - -	9,500,000	9,500,000	9,896,000	
Other Consolidated Fund Services -	1,700,000	1,700,000	1,974,000	
Total Consolidated Fund Services -	105,954,000	138,454,000	139,120,000	
Army - - -	15,000	15,000	15,000	
Navy - - -	17,000	17,000	17,000	
Ministry of Munitions (including Ordnance Factories) - -	1,000	1,000	1,000	
Civil Services -	55,515,000	55,515,000	54,113,000	Supplementary estimate £1,056,000.
Customs and Excise, and Inland Revenue - -	4,841,000	4,841,000	4,728,000	Supplementary estimate, £150,000.
Post Office Services	26,537,000	26,537,000	26,454,000	
Total Supply Services	‡ 86,926,000	‡ 86,926,000	‡ 85,328,000	‡ Excluding expenditure on these services charged to Votes of Credit.
Votes of Credit -	300,000,000	1,600,000,000	1,973,665,000	Vote of Credit estimate: Navy, Army and Munitions - £1,150,000,000 Loans to Allies and Dominions - £450,000,000
Total - -	492,880,000	1,825,380,000	2,198,113,000	

Estimated Deficit - - £1,323,105,000.
Realized ,, - - £1,624,685,000.

REVENUE.

	ESTIMATE.		RESULT: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	64,750,000	70,750,000	71,261,000	CUSTOMS AND EXCISE.—Tobacco duties raised, main duty from 5s. 6d. to 7s. 4d. per lb. (Customs +£6,000,000, Excise no effect); entertainments duty, revised scale and extension of duty to free tickets (Excise +£1,000,000); liquor licences, extension of rebates (Excise —£900,000).
Excise	34,850,000	34,950,000	38,772,000	
Total Customs and Excise	99,600,000	105,700,000	110,033,000	
Estate, etc., Duties	29,000,000	29,000,000	31,674,000	ESTATE, ETC., DUTIES.—Privileges accorded to officers and men of Navy and Army now extended to those in merchant service and fishing fleets.
Stamps	8,000,000	8,000,000	8,300,000	
Land Tax	650,000	650,000	665,000	
House Duty	1,950,000	1,950,000	1,960,000	
Income-Tax and Super-Tax	224,000,000	224,000,000	239,509,000	INCOME-TAX.—Child allowance extended to "adopted" children.
Excess Profits Duty, etc. (including Munitions Levy)	180,000,000	200,000,000	220,214,000	EXCESS PROFITS DUTY.—Merging of munitions levy in excess profits duty; rate of excess profits duty increased, from January 1st, 1917, from 60 to 80 per cent. (+£20,000,000); other changes including provision for reciprocity agreement with Dominions, and differential treatment for shipping trade.
Land Value Duties	400,000	400,000	685,000	
Total Inland Revenue	444,000,000	464,000,000	503,007,000	
Produce of Taxes	543,600,000	569,700,000	613,040,000	
Postal Service	24,200,000	24,200,000	25,200,000	SUBSEQUENT CHANGES.
Telegraph Service	3,250,000	3,250,000	3,500,000	
Telephone Service	6,250,000	6,250,000	6,600,000	
Crown Lands	600,000	600,000	690,000	CUSTOMS AND EXCISE.—Entertainments duty scale slightly revised and proposal to tax free tickets dropped; tobacco duty, increases reduced by 50 per cent. from July 16th, 1917; motor vehicle licence duties, concession in respect of surrendered licences. Surtax on dogs proposed but subsequently withdrawn.
Receipts from Sundry Loans, etc.	7,500,000	7,500,000	6,056,000	
Miscellaneous	27,100,000	27,100,000	52,149,000	
Produce of Non-Tax Revenue	68,900,000	68,900,000	94,195,000	STAMPS.—As from March 26th, 1917, powers of attorney for sale, etc., of Government stock were exempted from stamp duty.
Total Revenue	612,500,000	638,600,000	707,235,000	EXCESS PROFITS DUTY.—Various concessions.

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£	£	
Fixed Charge -	* 17,000,000	17,000,000	19,828,000	* Assuming that the suspension of the New Sinking Fund would be continued.
Other Charges -	† 194,500,000	194,500,000	170,023,000	† Including £41,500,000, estimated interest, &c., on New Debt to be created in 1917-18.
Road Improvement Fund -	—	—	—	
Local Taxation Accounts - -	9,700,000	9,700,000	9,731,000	
Other Consolidated Fund Services -	1,695,000	1,695,000	1,670,000	
Total Consolidated Fund Services -	222,895,000	222,895,000	201,252,000	
Army - - -	15,000	15,000	15,000	
Navy - - -	17,000	17,000	17,000	
Ministry of Munitions (including Ordnance Factories) - -	1,000	1,000	1,000	
Civil Services -	61,224,000	61,224,000	61,242,000	
Customs and Excise, and Inland Revenue -	5,249,000	5,249,000	5,156,000	
Post Office Services	25,980,000	25,980,000	25,738,000	
Total Supply Services	‡ 92,486,000	‡ 92,486,000	‡ 92,169,000	‡ Excluding expenditure on these services charged to Votes of Credit.
Votes of Credit -	1,975,000,000	1,975,000,000	2,402,800,000	Estimates: Navy, Army, and Munitions, £1,438,500,000 Miscellaneous War Expenses - £136,500,000 Loans to Allies and Dominions - £400,000,000
Total - -	2,290,381,000	2,290,381,000	2,696,221,000	

Estimated Deficit - - £1,651,781,000.
Realized ,, - - £1,988,986,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	71,650,000	94,500,000	102,780,000	Customs and Excise.—Spirits duties raised, main duty from 14s. 9d. to 30s. 0d. per proof gallon (Customs +£3,400,000, Excise +£7,100,000); beer duties raised, main duty from 25s. to 50s. (Customs no effect, Excise +£9,700,000); tobacco duties raised, main duty from 6s. 5d. to 8s. 2d. per pound (Customs +£7,490,000, Excise +£10,000); sugar duties raised, main duty from 14s. 0d. to 25s. 8d. (Customs +£11,960,000, Excise +£440,000); matches duties raised, main duty from 3s. 6d. to 5s.2d.(Customs no effect, Excise +£600,000); proposed Excise luxuries duty of one-sixth *ad valorem* (no estimate).
Excise	35,350,000	53,200,000	59,440,000	
Total Customs and Excise	107,000,000	147,700,000	162,220,000	
Estate, etc., Duties	31,500,000	31,500,000	30,262,000	
Stamps	8,500,000	9,250,000	12,438,000	Stamps.—Duty on cheques, etc., raised from 1d. to 2d. (+£750,000).
Land Tax	650,000	650,000	630,000	
House Duty	1,950,000	1,950,000	1,850,000	
Income-Tax and Super-Tax	267,500,000	290,450,000	291,186,000	Income-Tax and Super-Tax. — Income - tax raised, standard rate from 5s. to 6s.; Schedule B to be assessed on double rental value; certain concessions including £25 allowance for wife (net gain +£35,750,000); collection of Schedule A in two instalments (−£22,000,000); super-tax increases, maximum rate from 3s. 6d. to 4s. 6d., exemption limit reduced from £3,000 to £2,500 (+£9,200,000).
Excess Profits Duty, etc.	300,000,000	300,000,000	285,028,000	
Land Value Duties	700,000	700,000	664,000	
Total Inland Revenue	610,800,000	634,500,000	622,058,000	
Produce of Taxes	717,800,000	782,200,000	784,278,000	
Postal Service	24,600,000	28,000,000	29,400,000	Postal Service.—Postage rates increased (+£3,400,000).
Telegraph Service	3,500,000	3,500,000	3,800,000	
Telephone Service	6,500,000	6,500,000	6,800,000	
Crown Lands	650,000	650,000	760,000	
Receipts from Sundry Loans, etc.	6,000,000	6,000,000	11,680,000	
Miscellaneous	15,200,000	15,200,000	52,303,000	
Produce of Non-Tax Revenue	56,450,000	59,850,000	104,743,000	
Total Revenue	774,250,000	842,050,000	889,021,000	

SUBSEQUENT CHANGES.

CUSTOMS AND EXCISE.—Luxury tax: the Chancellor of the Exchequer announced on October 17th, 1918, that the proposed luxury tax would not be proceeded with during the current financial year. Subsequently, the proposal was definitely dropped. Entertainments duty: slight modification of scale.

ESTATE, ETC., DUTIES.—Benefits of the Death Duties (killed in War) Act, 1914, extended to brothers and sisters of the deceased and their descendants.

INCOME-TAX.—Income-Tax relief in respect of three or more children extended to those whose incomes exceed £800 but do not exceed £1,000. Extension of Income-Tax relief in respect of dependent relatives, and in respect of female relatives of a widower having charge of his children. Other minor concessions.

POSTAL SERVICE.—Proposed increase on letters to the troops withdrawn.

MR. A. BONAR LAW.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£	£	
Fixed Charge -	* 19,150,000	19,150,000	23,638,000	* Assuming that the suspension of the New Sinking Fund would be continued.
Other Charges -	† 295,850,000	295,850,000	246,327,000	
Road Improvement Fund -	—	—	—	† Including estimated interest, etc., on new Debt to be created in 1918-19.
Local Taxation Accounts - -	9,700,000	9,700,000	9,681,000	
Other Consolidated Fund Services -	1,714,000	1,714,000	1,699,000	
Total Consolidated Fund Services -	326,414,000	326,414,000	281,345,000	
Army - - -	15,000	15,000	15,000	
Navy - - -	17,000	17,000	17,000	
Air Force - -	7,000	7,000	7,000	
Ministry of Munitions (including Ordnance Factories) - -	1,000	1,000	1,000	
Civil Services -	64,029,000	64,029,000	67,988,000	
Customs and Excise, and Inland Revenue - -	5,573,000	5,573,000	5,532,000	
Post Office Services	26,141,000	26,141,000	26,396,000	
Total Supply Services	‡ 95,783,000	‡ 95,783,000	‡ 99,956,000	‡ Excluding expenditure on these Services charged to Votes of Credit.
Votes of Credit -	2,550,000,000	2,550,000,000	2,198,000,000	Votes of Credit estimate included: Army, Navy, Air Force and Munitions, £1,861,000,000 Loans to Allies, £300,000,000 Loans to Dominions, £50,000,000
Total - -	2,972,197,000	2,972,197,000	2,579,301,000	

Estimated Deficit - - £2,130,147,000.
Realized „ - - £1,690,280,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs - -	117,650,000	119,000,000	149,360,000	CUSTOMS AND EXCISE.—Spirits duties increased, main duty from 30s. to 50s. (Customs +£3,850,000, Excise +£16,000,000) (see also under Imperial Preference below); beer duties increased, main duty 50s. to 70s. (Customs +£20,000, Excise +£22,180,000); revision of private brewers' licence duties (no estimate); repeal of *Excise* duty on motor spirit (Excise −£70,000); repeal of motor spirit users' licences (Excise −£500,000).
Excise - -	80,900,000	118,500,000	133,663,000	
Total Customs and Excise - -	198,550,000	237,500,000	283,023,000	
Estate, etc., Duties	31,000,000	33,500,000	40,904,000	
Stamps - -	12,000,000	12,000,000	22,586,000	
Land Tax - -	600,000	600,000	680,000	
House Duty -	1,900,000	1,900,000	1,960,000	
Income-Tax Super-Tax -	354,000,000	354,000,000	359,099,000	
Excess Profits Duty, etc. -	300,000,000	300,000,000	290,045,000	IMPERIAL PREFERENCE.—Surtax on non-empire spirits (Customs +£150,000); Preferential reduction of one-sixth for the following Empire products: tea (Customs −£1,800,000); cocoa and coffee (Customs −£220,000); sugar (Customs −£500,000); chicory and dried fruits (Customs no effect); tobacco (Customs −£90,000); motor spirit (Customs −£60,000). Corresponding reductions in Excise duties: tobacco (Excise −£10,000); sugar and chicory (Excise no effect); Various preferential reductions for Empire wines (Customs no effect); One-third reduction of McKenna duties on Empire products (Customs no effect).
Land Value Duties	500,000	500,000	663,000	
Total Inland Revenue	700,000,000	702,500,000	715,937,000	
Produce of Taxes -	898,550,000	940,000 000	998,960,000	
Postal Service -	30,000,000	30,000,000	31,000,000	
Telegraph Service	4,000,000	4,000,000	4,850,000	
Telephone Service	7,000,000	7,000,000	8,300,000	
Crown Lands -	650,000	650,000	680,000	
Receipts from Sundry Loans, etc. - - -	9,750,000	9,750,000	—	
Ordinary -	—	—	* 1,004,000	
Special - -	—	—	† 13,948,000	
Miscellaneous -	209,700,000	209,700,000	—	
Ordinary -	—	—	‡ 16,050,000	
Special - -	—	—	§ 264,779,000	
Produce of Non-Tax Revenue - -	261,100,000	261,100,000	340,611,000	ESTATE, ETC., DUTIES.—Rates increased (+£2,500,000).
Total Revenue -	1,159,650,000	1,201,100,000	1,339,571,000	INCOME-TAX.—Minor concessions (no effect). EXCESS PROFITS DUTY.—Rate reduced from 80 to 40 per cent. (effect on current year's estimate, *Nil*).

SUBSEQUENT CHANGES.

CUSTOMS AND EXCISE.—Entertainments duty, minor changes. Agricultural labourers fulfilling certain conditions allowed to brew beer free of licence duty.

INCOME-TAX.—Children's allowances: raised to £40 for first child; extension for education. Wife allowance raised to £50. Other minor alterations.

* Includes receipts from Suez Canal Shares and other investments.
† Includes interest and repayments of War Loans to Dominions, Allies, etc.
‡ Includes Mint Receipts, Fee and Patent Stamps, etc., and Currency Notes Account excess interest.
§ Includes War Contributions and Receipts from sales of War Property and from trading undertakings.

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£	£	
Fixed Charge -	29,800,000	29,800,000	23,773,000	
Other Charges -	330,200,000	330,200,000	308,261,000	
Road Improvement Fund -	—	—	—	
Local Taxation Accounts - -	9,763,000	9,763,000	10,746,000	
Land Settlement -	5,000,000	5,000,000	3,477,000	
Other Consolidated Fund Services -	1,832,000	1,832,000	1,948,000	
Total Consolidated Fund Services -	376,595,000	376,595,000	348,205,000	
Army (including Ordnance Factories) - -	287,000,000	287,000,000	395,000,000	Supplementary estimates, £118,000,000.
Navy - - -	149,200,000	149,200,000	156,528,000	Supplementary estimates, £8,328,000.
Air Force - -	66,500,000	66,500,000	52,500,000	The Air Force estimates as finally presented were £12,469,000 less than the provision in the budget.
Civil Services (including Ministry of Munitions) -	505,804,000	505,804,000	569,054,000	Net additional authorized expenditure, £116,255,000.
Customs and Excise, and Inland Revenue - -	8,537,000	8,537,000	9,422,000	Supplementary estimates, £1,115,000.
Post Office Services	41,274,000	41,274,000	48,064,000	Supplementary estimates, £6,920,000.
Total Supply Services	1,058,315,000	1,058,315,000	1,230,568,000	
Votes of Credit -	—	—	87,000,000	Expenditure actually incurred and voted by Parliament in the previous year, but not brought to account until 1919-20.
Total - -	1,434,910,000	1,434,910,000	1,665,773,000	

Estimated Deficit - - £233,810,000.
Realized ,, - - £326,202,000.

REVISED ESTIMATES (PRESENTED 23RD OCTOBER, 1919) OF REVENUE AND EXPENDITURE, 1919-20

FROM CMD. 377.

	As estimated in Budget.	As now estimated.	More or less than in the Budget.
Expenditure	£1,451,100,000 *	£1,642,295,00	+£191,195,000
Revenue	1,201,100,000	1,168,650,000	− 32,450,000
Deficit	£250,000,000 *	£473,645,000	+£223,645,000

ESTIMATED REVENUE.

Customs	£119,000,000	£139,500,000	+ £20,500,000
Excise	118,500,000	136,500,000	+ 18,000,000
Income-Tax (including Super-Tax)	354,000,000	354,000,000	—
Excess Profits Duty	300,000,000	280,000,000	− 20,000,000
Other Inland Revenue Duties	48,500,000	53,500,000	+ 5,000,000
Total Tax Revenue	£940,000,000	£963,500,000	+ £23,500,000
Post Office	41,000,000	43,000,000	+ 2,000,000
Crown Lands	650,000	650,000	—
Receipts from Sundry Loans	9,750,000	11,500,000	+ 1,750,000
Miscellaneous	209,700,000	150,000,000	− 59,700,000
Total Revenue	£1,201,100,000	£1,168,650,000	− £32,450,000

ESTIMATED EXPENDITURE.

National Debt Services	£360,000,000	£345,000,000	− £15,000,000
Payments to Local Taxation Account	9,763,000	9,763,000	—
Land Settlement	5,000,000	5,000,000	—
Other Consolidated Fund Services	1,832,000	1,832,000	—
Total Consolidated Fund Services	£376,595,000	£361,595,000	− £15,000,000
Army	£287,000,000	£405,000,000	+£118,000,000
Navy	149,200,000	160,000,000	+ 10,800,000
Air Force	66,500,000	57,500,000	− 9,000,000
Civil Services (inc. War Pensions)	505,804,000	602,000,000	+ 96,196,000
Revenue Departments	49,811,000	56,200,000	+ 6,389,000
Allowance for Contingencies	16,190,000 *	—	− 16,190,000
Total Supply Services	£1,074,505,000	£1,280,700,000	+£206,195,000
Total Expenditure	£1,451,100,000 *	£1,642,295,000	+£191,195,000

* The difference between these totals and the corresponding totals in the Budget Table on the previous page is explained in Cmd. 377 as follows :

Expenditure as shown in Financial Statement	£1,434,910,000
Add allowance for contingencies as in Budget	16,190,000
	£1,451,100,000

NOTES.

(See also p. 231.)

The normal revenue collection was proceeding satisfactorily. All heads of Inland Revenue were expected to fulfil or exceed the Budget estimate except Excess Profits Duty, £20 millions of which it was anticipated would fall into 1920-21 instead of the current year. Appropriations in Aid, however, were not being realized as rapidly as expected, it being evident that the following could not be received during the year 1919-20:

Repayments, mainly by Australia, for maintenance of Australian troops £20,000,000
Repayments by Germany for the cost of the Army of Occupation - £69,000,000

The continuance of food control, preventing the winding up of the accounts, accounted for a deficit of £65 millions, which was partly made good by the increase on other items.

Consolidated Fund Services.—The Debt Charge was decreased by the arrangement made by the United States to postpone interest on Allied Debt.

Army Services.—£58 millions of the difference was attributed to decreases in Appropriations in Aid.

Navy Services.—Increased pay of the Navy accounted for £10·4 millions.

Air Services.—Reduction due to transfer of expenditure on winding up Air Craft contracts to the Vote for Ministry of Munitions.

Revenue Departments.—Increase mainly due to cost of War Bonus.

Civil Services.—The increase was made up as follows:

War Pensions	£32,000,000
Loans to Allies	32,000,000
Foreign Export Credit—repayable	12,000,000
War Bonus (excluding Revenue Departments)	3,000,000
Coal Mines Deficiency	6,400,000
Loss on Coast-wise Traffic	3,250,000
Training of Ex-Service Men	5,000,000
Extra Police Grants	5,500,000
Foreign Office War Services	4,500,000
Strike Expenses (Ministries of Transport and Food)	3,500,000
Herring Purchases—repayable	3,000,000
Grants for Civil Liabilities, etc.	2,400,000
Extension of Out-of-Work Donation to November 24th	1,500,000
Welsh Church Grant	1,000,000
Miscellaneous Items	3,146,000
	£118,196,000
Less anticipated savings	22,000,000
Increase	£96,196,000

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs	140,490,000	150,000,000	134,003,000	CUSTOMS AND EXCISE.—Spirits duty increased main duty 50s. to 72s. 6d. (Customs +£6,000,000, Excise +£17,500,000); beer duty increased, main duty £3 10s. to £5 (Customs +£10,000, Excise +£22,490,000); wine duties doubled, and 50 per cent. *ad valorem* duty on sparkling wine (Customs +£3,800,000); proposed 50 per cent. *ad valorem* duty on imported cigars (Customs +£500,000); Customs motor spirit duty to be repealed from January 1st, 1921 (Customs −£800,000), existing motor vehicle licence duties abolished from the same date (Excise −£850,000), and in their place a new scale of duties proposed, the estimates of which appearing henceforward under head of motor vehicle duties (+£4,500,000).
Excise	159,510,000	198,650,000	199,782,000	
Total Customs and Excise	300,000,000	348,650,000	333,785,000	
Motor Vehicle Duties	—	4,500,000	7,073,000	
Estate, etc., Duties	45,000,000	45,000,000	47,729,000	
Stamps	20,000,000	25,200,000	26,591,000	STAMPS.—Increased duties (+£5,200,000).
Land Tax and House Duty	2,500,000	2,500,000	2,550,000	
Income-Tax (including Super-Tax)	387,000,000	385,800,000	394,146,000	INCOME-TAX AND SUPER-TAX. — Income-tax, standard rate unchanged, but alterations affecting differentiation, graduation, etc. (−£11,500,000); abolition of temporary war reliefs, etc. (+£2,000,000); relief for double income-tax within the Empire (−£500,000). Super-tax: Increase and extension of scale (+£8,800,000).
Excess Profits Duty, etc.	210,000,000	220,000,000	219,181,000	EXCESS PROFITS DUTY.—Increase from 40 to 60 per cent. on profits accruing from January 1st, 1920 (+£10,000,000).
Corporation Profits Tax	—	3,000,000	650,000	
Land Value Duties	500,000	500,000	20,000	
Total Inland Revenue	665,000,000	682,000,000	690,867,000	
Produce of Taxes	965,000,000	1,035,150,000	1,031,725,000	
Postal Service	32,000,000	37,000,000	36,100,000	
Telegraph Service	5,000,000	5,750,000	5,200,000	
Telephone Service	9,500,000	10,250,000	8,200,000	
Crown Lands	650,000	650,000	660,000	
Receipts from Sundry Loans etc.,				
Ordinary	744,000	744,000	991,000	
Special	8,756,000	8,756,000	29,780,000	
Miscellaneous—				
Ordinary	18,000,000	18,000,000	25,389,000	
Special	302,000,000	302,000,000	287,940,000	
Produce of Non-Tax Revenue	376,650,000	383,150,000	394,260,000	
Total Revenue	1,341,650,000	1,418,300,000	1,425,985,000	

Proposed CORPORATION PROFITS TAX.—Tax of 1s. in the £ on profits of limited liability concerns engaged in trade or business (+£3,000,000).

LAND VALUE DUTIES.—Repeal of Increment Value Duty, Reversion Duty and Undeveloped Land Duty; repayment of duty already paid and remission of outstanding arrears (no estimate).

POST OFFICE SERVICES.—Post Office Charges increased, including raising of minimum rate for letters from 1½d. to 2d. (Postal +£5,000,000; Telegraph +£750,000; Telephone +£750,000).

SUBSEQUENT CHANGES.

CUSTOMS AND EXCISE.—Proposed *ad valorem* duty on sparkling wines reduced from 50 to 33⅓ per cent.

Further concessions were made during the passage of the Bill which were estimated to involve the following reductions in the estimated Revenue:

INCOME-TAX (−£600,000).
EXCESS PROFITS DUTY (−£4,970,000).
CORPORATIONS PROFITS TAX (−£100,000).

MR. AUSTEN CHAMBERLAIN.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt—	£	£	£	
Fixed Charge -	24,500,000	24,500,000	24,500,000	
Other Charges -	320,500,000	320,500,000	325,099,000	
Road Fund - -	—	6,650,000	8,937,000	"Road Fund" (absorbing Road Improvement Fund) established under Roads Act, 1920.
Local Taxation Accounts - -	10,818,000	10,818,000	10,785,000	
Land Settlement -	12,000,000	12,000,000	6,930,000	
Other Consolidated Fund Services -	1,730,000	1,730,000	1,796,000	
Total Consolidated Fund Services -	369,548,000	376,198,000	378,047,000	
Army - - -	125,000,000	125,000,000	181,500,000	Supplementary estimate, £46,586,000.
Navy - - -	84,372,000	84,372,000	88,428,000	Supplementary estimate, £6,500,000.
Air Force - -	21,057,000	21,057,000	22,300,000	Supplementary estimate, £2,186,000.
Civil Services (including Ministry of Munitions) -	497,318,000	497,318,000	460,216,000	Supplementary estimate, £46,614,000.
Customs and Excise, and Inland Revenue - -	10,468,000	10,468,000	11,259,000	Supplementary estimate, £880,000.
Post Office Services	49,689,000	49,689,000	53,678,000	Supplementary estimate, £4,300,000.
Supplementary Estimates to be presented -	20,000,000	20,000,000	—	
Total Supply Services	807,904,000	807,904,000	817,381,000	
Total - -	1,177,452,000	1,184,102,000	1,195,428,000	

Estimated Surplus - £234,198,000.

Realized „ - £230,557,000, which was applied in purchasing and paying off debt during the year 1920-21, and under section 58 (1) of the Finance Act, 1920, it did not become Old Sinking Fund, but was deemed to be expenditure within the meaning of the Sinking Fund Act, 1875.

PART II.

NOTES AND COMMENTS.

CHAPTER I.

INTRODUCTION.

Since the publication of *British Budgets* in 1913 much attention has been given, partly as a result of the financial pressure caused by the war, to many of the questions touched upon in Part III. of that volume. An adequate analysis, indeed, of the material now available on such questions as the incidence of direct and indirect taxation, the effects upon the standard of living and upon industry of high direct taxation and similar topics, would fill a space altogether out of proportion to the scale of the present work, and be a mere summary of facts and speculation, easily accessible in such documents as the Report of the Committee on National Debt and Taxation, 1927, Cmd. 2800 (the " Colwyn Committee "). Nor would such a discussion be specially appropriate to our present period, which can in no sense be described as normal in respect of taxation and its burden.

Such general comment, therefore, as we are able to add to the historical account of this series of budgets will therefore be mainly confined to explanations of the tables and to the questions of war finance and of monetary and credit inflation.

One or two general observations may, however, be made here. Whatever opinion may be held on the perennial and probably insoluble controversy as to

the proper proportion of war expenditure to be defrayed respectively from taxation and from loans, it is certain that the tax system of this country, as a whole, stood alone in Europe in its capacity for expansion to meet the emergency of war, and belied the fears of those who, not exclusively perhaps for revenue reasons, had advocated the broadening of the basis of taxation. A point of special interest to which some allusion must be made is the effect of the war, up to the year 1920, upon the national income and the national wealth, and upon their distribution in the population. Without discussing the various methods of calculating national income and the various definitions of income given by such authorities as Professor Bowley and Sir Josiah Stamp, we may agree that what they call the "social income" is that which is of most interest for our purpose. The social income is that which excludes from the aggregate of individual and collective incomes the income received by compulsory reductions from other incomes in return for no services or services not rendered in the year in question, such for instance as the interest on war or unproductive debts which would otherwise be duplicated in the aggregation. This income amounted to £1,988 millions in 1911 and to £3,803 millions in 1924 for the United Kingdom, excluding Southern Ireland. This, say Bowley and Stamp,[1] is an increase of 90 per cent.; but since the effective increase in prices between the two dates was also just about 90 per cent., it follows that real social income was practically unchanged. They conclude that real income per head, since population had grown

[1] *The National Income*, Professor Bowley and Sir Josiah Stamp, 1924.

about 7 per cent., had decreased 5 or 10 per cent. (owing to the falling off of income from abroad), and that the real home-produced income was very much the same per head, in spite of the fact of increased unemployment and the reduced working week.

As regards distribution, such estimates as that which assigns 44 per cent. of the income accruing to individuals in 1910 to about $5\frac{1}{2}$ per cent. of all income receivers (Bowley, *The Change in the Distribution of the National Income*) and the large proportion of income in the possession of some 90,000 super-tax-payers, illustrate the familiar truth of the inequality of its distribution. The general improvement in the conditions of life among the poorer classes of the population during the last 15 or 20 years is a matter of common observation, but there seems to be little statistical evidence of any striking changes caused by the war, except such as may be due to the high rates of direct taxation. The following quotation sums up the position *for our period*:

"The distribution of income between wage-earners, other earners and unearned income was changed slightly in favour of the earning classes. Manual workers on the average made slightly increased real earnings and there have also been transfers for their benefit in Insurance schemes and other public expenditure. In addition they have the advantage of a reduction of about one-tenth of the working week. This change can be connected with the reduction in the real income derived from house property and investments bearing fixed rates of interest. The indications are that profits as a whole, reckoned before tax is paid, form nearly the same proportion to total income at the two dates. Within the wage-earning classes, women and unskilled workers have received a substantial real advance in wages; the great majority of skilled workers make at least as much (after allowing for the rise of

prices) in 1924 as in 1911. When the full effects of taxation are taken into account the real income available for saving or expenditure in the hands of the rich is definitely less than before the war " (Bowley and Stamp, *The National Income*, p. 58. See also Royal Economic Society Memorandum No. 12).

As regards capital wealth, refraining again from any reference to the important discussion of methods of valuation to be found in such books as Sir J. Stamp's *Wealth and Taxable Capacity* and his *British Incomes and Property*, we may confine ourselves to quoting his estimate (on p. 38 of the former volume published in 1922) that the

" aggregate of individual wealth has moved from £11,000 million in 1914 to about £15,000 million at June 1920. Of course, these are merely expressed in money values,—the increase in real or intrinsic values is certainly almost negligible."

Wealth is more unevenly distributed than income. According to the calculations of Professor Clay,[1] rather less than two-thirds of the " wealth " is in the hands of 0·85 per cent. of the whole population. An interesting analysis of estate duty statistics for the year 1923-24 is to be found at pp. 17-20 of the Sixty-seventh Inland Revenue Report, Cmd. 2227, 1925. Taking the number of estates paying duty in any one financial year at 100,000 in round figures and excluding deaths under twenty-five years of age, it is found that the proportion of liable estates to the number of deaths is rather more than one-quarter. Of estates liable to duty, 40 per cent. were " small estates " paying a fixed duty of 30s. or 50s. A further 24 per cent. related to estates between the

[1] *Transactions of the Manchester Statistical Society*, 1924-26, " Distribution of Capital in England and Wales."

net capital values of £100 and £1,000, and a similar proportion between the values of £1,000 and £5,000. Estates exceeding £5,000 were thus only 12 per cent. of the total numbers. Yet 79 per cent. of the total net capital value of all estates appertained to the 12 per cent. of the number having estates exceeding £5,000 in value, and only 21 per cent. to those not exceeding that amount.

Professor Clay's estimates from the estate duty for 1912-13 and 1920-21 seem to show that wealth has become somewhat more widely distributed since the war (Carr Saunders and Jones, p. 111). But, as Professor Clay observes:

"Capital in this country is much more concentrated than income, and much more concentrated than in any other country. This concentration is connected with the fact that agriculture and other economic activities in which small scale enterprise predominates are a much smaller part of the country's economic activity than it is anywhere else. Moreover, this country is unique, I think, in having the tenant farmer rather than the owner-occupier as the predominant class in agriculture. The wage-earning proletariat, which is much the largest economic class in the country, has little capital,[1] although its standard of life is high compared with that of most continental wage-earners and peasant proprietors."

The concentration of income in this country has an obvious bearing on the great development of progressive rates of direct taxation in recent years, for it renders such rates too productive a source of revenue to be neglected in an era of high taxation.

[1] Mr Walter Runciman has calculated (*Times*, May 1st and 3rd, 1929) that the grand total of the savings of 15 million individual small investors, "in this country," amounts to £2,232,400,000, a considerable sum in itself, though of course not comparable with the much larger amount of invested capital in the hands of a small minority of the population.

The even greater concentration of capital also explains, if it does not justify, the lengths to which differentiation against investment income has been carried in our system, not only in the income-tax but also, a point too often disregarded, through the operation of the death duties.

The increase in national wealth and national income has for many generations gone hand in hand with the growth of population. The tendency towards a stationary condition of population is however now apparent, and that point may be reached before the middle of the present century. The prospective increase was carefully considered by the Colwyn Committee (Appendix XXI., pp. 160-164), and the following speculative results arrived at : [1]

NET AVERAGE ANNUAL INCREASE BETWEEN THE AGES OF 15 AND 65 AFTER ALLOWANCE FOR EMIGRATION.
(Great Britain only.)

	Total Population.	Occupied Population.
Between 1926 and 1931 -	190,000	125,000
„ 1931 and 1936 -	65,000	46,000
„ 1936 and 1941 -	24,000	20,000

[1] The following more recent comment on the situation by an eminent statistical student of population is worth quoting in this connection :

" The end of a period of increase of population may be taken to be the beginning of a period of population decrease. Considering the Census population as a whole, this decrease should not set in before 1941, and will then, as far as can be judged, set in only slowly. . . . When rough allowance is made for the whole course of reproduction and death at different ages, it appears that the end of the period of biological increase must be placed at some date before 1921, and that the rapid fall in reproduction since that period has already reduced the number of births considerably below that needed to maintain a stationary population. The recent estimates of Kuczynski for England and Wales for 1926 and 1927 are 88 and 82 per cent. of the numbers needed for biological stability. Fuller details in the registration of births would certainly allow of much more precise estimates of this important fraction."

Such figures indicate that the falling birthrate will have important bearings on the social structure and outlook of this country in various directions difficult to foresee. It will not be without some effect on the productive, and, therefore, on the taxable capacity of the nation, and unless the loss of fresh recruits to industry is offset by mechanical inventions and improved organisation it may perhaps provide an automatic check to the growth of public revenue and expenditure. One direction may be noted which may have a direct influence on public finance, the change in the age distribution of the population, which is decreasing the proportion of young persons and increasing that of the old. The number of children under 15 years of age in 1921 was much the same as in 1891, though the total population had increased by nearly ten millions during these thirty years. In view of the raising of the school age and the need for improved accommodation, it would perhaps be rash to assert that "we need to build houses faster than we need to build schools because the population as a whole is growing faster than the school population" (Carr Saunders and Jones, pp. 5-6); but it is certainly probable that the workers will have to labour increasingly to support the pensioners rather than the coming recruits to industry (Carr Saunders and Jones, pp. 6-8).

"At present Old Age Pensions cost about £28 millions a year. Past expansions in the population, combined with its generally increasing age, are continuing to swell the number of claimants, and the probability is that these causes, apart from recent alterations in the system, would have doubled the

cost in forty to fifty years' time" (Colwyn Report, p. 104).

Although it would be out of place in this volume, dealing as it does with a period of so abnormal a character, to attempt a close analysis of public expenditure, it should be noted in this connection that the expenditure of a large portion of the national income by Government must have a very considerable influence on its distribution. We need only refer to the important discussion in the Report of the Colwyn Committee (paras. 256 to 287) of the effect upon the national savings and on the distribution of wealth of the transfer of revenue raised from taxation to the service of the debt and to other services, war pensions, old age pensions, national defence and social services. The Committee was of opinion that the "immediate advantage" of the debt expenditure of the State might be considered to accrue on balance to the wealthier section of the community; the "immediate advantage" of that on pensions to the poorer section and of that on defence to be so general that no distribution could be made in either direction; while the most emphatic alteration in distribution occurred under the head of social expenditure.

The growth of expenditure on social services was commented on in the first budget of the present series in which Mr. Lloyd George drew pointed attention to the subject. The figures quoted by him (p. 7) include items such as the cost of postal services which do not properly fall under this head and exclude others, such as Poor Law relief, which should be included. Taking the figures from the Return on Public Social Services (No. 16, 1928) the total for this

class of expenditure[1] increased from £63,157,551 in 1911, England, Wales and Scotland, to £175,802,489 in 1921. The enormous increase of the burden of taxation during the war had thus no effect in checking the growth of this class of expenditure, which seems on the contrary to have been stimulated by the discovery that the taxable capacity of the country was much greater than had been supposed. Since 1921 the expansion of expenditure in this direction has been greatly accelerated, and the corresponding figure for 1927 stands at £240,153,660. War pensions have been excluded from the figures of 1921 and 1927, but, as Mr. Churchill pointed out in introducing the budget in 1925, the coalescence and extension of various social pension schemes have already mortgaged any relief which may be expected from that source. It should be noted that the figures for 1927 were swollen by the general strike and coal stoppage in 1926, which increased the cost of Poor Relief and Unemployment Benefit by £10,944,000 and £6,402,830 respectively. But with all deductions of charges attributable to this cause, the figures show a continuous expansion of expenditure on social services in spite of "a national debt of over £7,000 millions, an annual budget of over £800 millions, and a world economic situation still particularly menacing to a state in which the standard of living was—and is—the highest prevailing in the Old World" (*Times*, Jan. 16th, 1929).

[1] Heads of expenditure: National Insurance Health Acts, Unemployment Insurance Acts (neither of which appear in the 1911 figures), Old Age Pensions, Education, Reformatory and Industrial Schools, Inebriates Act, Public Health Acts, Housing Acts, Relief of the Poor, Lunacy and Mental Deficiency Acts.

CHAPTER II.

INLAND REVENUE.

The expansion in the yield of the direct taxes during the war period from a total of £94 millions in 1913-14 to £486 millions in 1920-21 is shown in Table XX, which, however, does not include the yield of the excess profits duty. (See Table XIII.) The latter was not far below the yield of the income-tax during several years of this period.

The expansion in the yield of indirect taxation is almost equally noteworthy, namely, from £69 millions to £329 millions. In this great increase of the tax revenue the proportion maintained between direct taxation falling on the small wealthier classes and indirect taxation mainly affecting the poorer classes of the community varied very considerably, as will be seen from Table XX. This Table being the traditional calculation of the proportion between the amount of direct *v.* indirect taxation, must, however, not be read as denoting the real incidence of taxation upon social classes, a better indication of which is to be found in Table XXI.[1] The last column, for instance

[1] More than one attempt has been made to deal with this important question since the publication of *British Budgets* in 1913, in which several references were made to it (see Preface, p. x.). Sir Herbert Samuel's Presidential Address to the Royal Statistical Society in 1919 was the first responsible public utterance on the subject, and no doubt inspired the Colwyn Committee to deal with it in their Report; and

(taxation per head of population), takes no account of the fact that the great bulk of the amount of the direct taxes falls on the income-tax-paying class, the numbers of which can be gauged from the fact that the number of persons within that class actually chargeable with income-tax is about $2\frac{1}{4}$ millions (see Table VIII), whereas indirect taxation is spread over the whole population of about 45 millions. But the Table is of value as showing clearly the tendency over a long series of years to shift the burden increasingly from indirect to direct taxation, a process noted during the period covered by the 1913 volume of "British Budgets" (see p. 493), and very much more marked during the war period. It is of interest to note that down to the last year given, 1920-21, the proportion of food taxation to the whole remained very much the same.

The structure of the fiscal system has remained outwardly less changed than might have been expected, but the demonstration afforded by the war of the fiscal possibilities of direct taxation has strengthened the tendency to rely for the needs of the State in normal times on the income and capital of the small well-to-do minority of the population, while the divorce between political power and financial responsibility has been accentuated by the adoption of universal suffrage, male and female. This tendency has been accompanied by a great development of the

in 1927 Mr. P. Caradog Jones brought up to date Sir H. Samuel's address in a paper read before the Royal Statistical Society (*Journal*, vol. xc., part iv., 192) with some interesting comment. The Table which we have reproduced from the Colwyn Report relating Direct and Indirect Taxation to specimen incomes over a series of years (Table XXI) will give some idea of the result of these investigations.

principle of progressive taxation which, though fully in accordance with both scientific and popular ideas of the ability theory in taxation, was primarily due to revenue necessities; since, with the actual distribution of wealth in modern societies, the maximum yield from direct taxation cannot be obtained without recourse to progressive rates. We shall find the chief exemplification of this principle in the income-tax and super-tax, but the estate duty (Table XI) also furnishes a good example of this truth. The capital value of estates liable to duty has increased from an average in the first five years of the imposition of the duty by Sir William Harcourt of under £240 millions to an average during the five years 1922-23 to 1926-27 of £451,400,000 (not quite double), while the receipt of duty is now nearly eightfold greater, and this increased revenue is chiefly the result of the steeper progression of the rates in the higher ranges of capital value.

Turning to income-tax, it may first be noted that it has the largest yield of any single tax in the British system, and in the main it is, as illustrated by the statistics for 1919-20, a tax on the income of individuals. Out of a total "actual" income in that year of £2,547,179,823 assessed, nearly 90 per cent. was distributed among individuals resident in the United Kingdom; the remaining 10 per cent. accrued to, and was retained by, corporate bodies, *e.g.* undistributed profits of limited liability companies, or accrued to persons resident out of the United Kingdom (Sixty-fifth Inland Revenue Report, p. 89). It is of interest to note an estimate of the Board of Inland Revenue that in 1921-22 approximately 67 per

cent. of the net yield was collected at the source, and that " personal statements of total income are rendered annually by almost every individual tax-payer for purposes of either income-tax or super-tax " (Sixty-fifth Report, pp. 104-5).

Changes in the income-tax prior to 1920-21 are shown in Table V, and comprise the gradual raising of the standard rate from 1s. 2d. to 6s. in the £ and the lowering of the exemption limit from £160 to £130 in 1915-16. Successive efforts had been made, since the Select Committee on the Income-tax in 1906, to modernize the old income-tax and transform it into a more efficient fiscal engine by means of graduation which should tax the higher incomes more severely, and differentiation which should mitigate the burden on the smaller precarious incomes. Mr. Asquith, in his second budget, introduced differentiation in favour of " earned " income (*British Budgets*, 1913, pp. 277-282), leaving such graduation as existed to abatements on the smaller incomes, which had the effect of decreasing the real effective rate charged on them. Direct graduation was difficult to graft on a system the great feature of which was, and still is, deduction of the tax at the source ; but in 1909 it was added in the case of some lower ranges of income, and a super-tax (not graduated) imposed on the larger incomes ; and in the same year an allowance was given to tax-payers with young children, the forerunner of the present allowances to all married tax-payers and others with family responsibilities—an application of the principle of " ability to pay " which has also been claimed as an interesting concession to the views of population and

eugenic experts. " As a result of the fivefold increase in the standard rate of the tax during the war " (to quote from the Report of the Royal Commission on the Income-tax, para. 126 [1]), " it became necessary to extend direct graduation to all incomes " (with the assistance of the super-tax graduation), and the system then became steeply progressive, but so unequal and unfair as between one tax-payer and another as to demand special attention on this account; and the Finance Act of 1920, adopting the most important of the recommendations of the Income-tax Commission, accordingly made radical alterations in the method by which graduation and differentiation were effected.

It is perhaps desirable to give a short account of the system then adopted and still in force. The differentiation in favour of earned income is made, not as before by reducing the rate of tax chargeable upon incomes below a certain range as compared with " investment " income (the new term for " unearned " income), but by deducting from the " actual " income one-tenth (now one-sixth) of the earned income; this deduction being given irrespective of the amount of the tax-payer's actual income, but not to exceed £200 for any one individual. From the income so arrived at (the " assessable " income) there is then deducted the aggregate of the various personal allowances to which the tax-payer is entitled, leaving the " taxable " income on which the tax is then calculated—the first £225 of the individual's " taxable " income being charged at half the standard rate of tax, and the remainder at the standard rate. Finally from the

[1] Appointed in 1919. Cmd. 615.

amount thus reached there is deducted any relief due in respect of (*a*) premiums paid for life insurance or for contracts for deferred annuities, and (*b*) Dominion income-tax.

The result of these processes which can be traced on p. 397 is that the real effective rate of tax levied on each pound of actual total income rises gradually from a fraction of a penny in the pound until, in combination with the super-tax which is relied upon to effect the graduation above the limit of £2,000 income, it closely approaches a maximum rate represented by the sum of the standard rate of income-tax and the highest rate of super-tax. Specimen tables printed by the Colwyn Committee (Appendix XIII.) show how the graduation thus effected becomes smoother all through than before; the smaller incomes, especially when earned, obtaining more relief, and the greater incomes being proportionately more highly taxed. In the upper ranges of income (above £8,000 or £10,000) the graduation becomes progressively less steep for obvious reasons. Graduation or progression in taxation is justifiable both on theoretical and practical grounds. But the Royal Commission alludes in this connection to the "national disadvantages of progressively high rates of tax," which prescribed caution in substantially increasing them above the rates they recommended; and the Colwyn (Majority) Report indicates these "national disadvantages" in the following words. "The larger the increase" (in income) "the more room there is for saving; and the State, when putting a heavy tax on incomes with the greater margin, has to consider the risk of doing too much damage to savings" (para. 333).

A word must be added on the limit of exemption from income-tax which was a not infrequent topic of discussion throughout the present series of budgets. The lowering of the limit from £160 per annum at which it had stood for many years to £130 in 1915, together with the rising level of wages, gradually brought into assessment to the tax a greatly increased number of individuals (see Table VIII) and was welcomed by all those who had advocated the extension of direct taxation to a portion at all events of the wage-earning classes. This £130 limit was the subject of careful consideration by the Royal Commission on the Income-tax (Report, paras. 238-247), before whom it was urged that the limit should be raised because the cost of living had greatly increased ; because no income so small as was only sufficient to satisfy ordinary human needs should be taxed ; and because the existing indirect taxation laid upon the small income a full share of the burden of taxation. The Commission found that it was "impossible at the present time to justify the raising of the exemption limit for the bachelor beyond £150 and for a married couple with no children beyond £250." The recommendation was adopted in principle in the Finance Act of 1920, in which the term exemption is not used ; but it is effected by personal allowances and deductions for wife, children, and so on, being set against the assessable income, so that where the total allowances, etc., are equal to or exceed the assessable income no tax is payable. The taxable income is further dependent on the earned income allowance. The personal allowances of £225 for married and £135 for other persons (see Table VI) have been

maintained since 1920, but the Finance Act of 1925, having raised the deduction in respect of earned income from one-tenth to one-sixth thereof, the allowance now results in effective exemption limits of £162 and £270 in the case of income wholly earned. The effective exemption limit varies accordingly as follows :

Single person.		Married persons without children.		Married persons with 3 children.	
All investment income.	All earned income	All investment income.	All earned income.	All investment income.	All earned income.
£135	£162	£225	£270	£315	£378

The result of these changes on the number of income-tax-payers is shown in Table VIII. The estimated number has risen from 1,130,000 in 1913-14 to 2,250,000 in 1927-8 ; but even having in view the changed wages levels, it would appear that since the termination of the war very considerable relief has been afforded to the poorer classes of tax-payers in respect of direct taxation.

Whether, or rather how far, high direct taxation has detrimentally affected the essential supply of capital, and whether death duties are more or less adverse to saving and to enterprise than income-tax and super-tax, are subjects of careful examination in many pages of the Colwyn Report, but these are questions which hardly fall within our present period and to which only the actual experience of subsequent years can furnish practical replies. It may, however, be noted that some security against further damaging inroads on the income and capital available for saving would be felt if the following recommendation of the Royal Commission (para. 153) could be observed, " that a new line of graduation, once fixed, should not be liable to constant or partial alteration, but should

remain unchanged in its main characteristics, so long as the aggregate amount of revenue to be raised from income-tax and super-tax does not become very largely different from what it is now." This consideration applies with at least equal force to the rates of graduation in the estate duty, and their relation to the rates of the income-tax.

A short account must now be given of three novel forms of taxation due to the war, the munitions levy, the excess profits duty, and the corporation profits tax.

The special taxation of war profits in this country first appeared in the form of the munitions levy, termed, in the phraseology of the Finance Acts, the Munitions Exchequer Payment. The levy was imposed by the Munitions of War Act, which was essentially a measure " to make provision for furthering the efficient manufacture, transport and supply of munitions," the financial provisions being incidental. Labour was required to give up certain rights and privileges, and it was therefore deemed necessary that employers should make corresponding sacrifices in the shape of limitation of profits. From the date at which an establishment became " controlled " under the provisions of the Act, its profits were limited to the standard amount of profits—normally the average of the net profits for the last two pre-war years—plus one-fifth, the balance being payable to the Exchequer as munitions levy. Special allowances were made for increased output, for increased capital, for exceptional wear and tear of plant, buildings and machinery, for capital expenditure on munitions work, and for other exceptional circumstances.

Controlled establishments were not only liable to the munitions levy but were also subject, like other concerns, to the excess profits duty after its introduction, until in 1916 it was provided that a controlled concern should be liable not to both but only to the levy or the duty, according to which was, for any given period, the higher charge. For this reason, the statistics relating to the duty and the levy must be regarded as complementary. It may be noted that although the munitions levy became law some considerable time before the excess profits duty, the levy was in no case chargeable on profits made before July 12th, 1915, the earliest date at which any concern became a controlled establishment, whereas the excess profits duty was chargeable in some cases in respect of profits made as early as August 1913, where such profits were shown in accounts made up to a date subsequent to August 4th, 1914.

The munitions levy was not regarded officially as a tax, its administration being entrusted to the Ministry of Munitions until December 1916, when the levy was repealed. From that date, the rate of excess profits duty was increased to 80 per cent., thus becoming heavier than the levy in practically every case, and would have automatically rendered the levy inoperative if it had not been repealed. The administration of what was in reality a tax by the Ministry of Munitions, who were, as Sir Josiah Stamp tells us in his *Principles*, amateurs at such work, not unnaturally led to a good deal of delay.

The excess profits duty was imposed, by the Finance (No. 2) Act, 1915, at the rate of 50 per cent. on excess profits shown in business accounts made up to a date

after August 4th, 1914. Trades and businesses carried on in the United Kingdom, or owned or carried on in any other place by persons ordinarily resident in the United Kingdom, were subject to the duty, but the profits from husbandry, the professions, offices or employments were exempt, although the earnings of directors and others concerned in the management of businesses were indirectly made subject to the duty.

The excess profits duty differed fundamentally from the income-tax in that it was assessed not upon the profits or income of individuals as such but upon the profits of a business concern, and from this arose many of the defects inherent in the duty. Profits were calculated, with certain exceptions, on the same principles as for income-tax, and were limited to the profits of the business, subject to the deduction of interest from investments. Loan interest and other charges upon a business were also deducted in calculating profits.

The duty was chargeable upon the amount by which the actual profits of an accounting period exceeded the statutory standard of profits, subject to a free allowance of £200 per annum, which was increased for ex-soldier proprietors of businesses to £500. In the normal case of a business operating before the war, the standard of profits was either the average profits of any two of the three accounting years immediately preceding the outbreak of war (in exceptional cases, a different basal period was permitted) or a percentage standard, at the option of the tax-payers. The percentage standard was normally the statutory percentage of 6 per cent. in the case of companies, and 7 per cent.—increased in

1916 to 8 per cent.—in other cases, of the capital employed in the business before the war. Provision was made for increasing these percentages when abnormal conditions or exceptional risks could be proved.

As the fundamental idea of the duty was the comparison of profits at two different periods, it was essential that the bases of computation should be truly comparable, and provision was therefore made for a reduction or increase of the calculated profits in respect of any decrease or increase in the capital employed. Businesses which commenced after the outbreak of war, or which had been in existence for less than three full years prior to the time, were specially provided for. Special provisions, described in the First Part of this volume, were also made in respect of depreciation and obsolescence of assets, unremunerative capital, remuneration of directors, municipal trade, industrial and provident societies, and in respect of shipping.

The rate of the excess profits duty was increased in 1916 from 50 to 60 per cent., and in the following year to 80 per cent., but in 1919 the rate was reduced to 40 per cent. In 1920, Mr. Chamberlain raised it to 60 per cent., at which rate the duty remained until it was repealed by the Finance Act, 1921. The complementary tax on mineral royalties—the excess mineral rights duty—was levied at the same rate as the excess profits duty.

The taxation of excess profits, although not unknown before the war, had played an insignificant part in the history of taxation, but under the abnormal conditions of war-time this form of impost became of

immense importance, and it is not surprising that it did so. For war, which means sacrifice and misery for many, brought to others huge and unexpected gains, and from this contrast sprang a pressing public demand for the heavy taxation of such fortuitous gains. This, coupled with the productivity of the tax and the unlimited need for public revenue, explains why the excess profits tax spread throughout Europe, based broadly on the principle of taxing the excess of war-time over pre-war profits.

The tax was also adopted by the United States Government, although there the history of the tax, while resembling in many respects that of the British tax, shows fundamental dissimilarities. The tax started there in 1916 in the form of a special tax on the profits of munitions manufacturers, but developed the following year into a general tax on profits, which was in its final form based, not like the British tax on the excess of war-time over pre-war profits, but, broadly, on the amount by which profits exceeded the standard percentage of 8 per cent. on the invested capital. The rate of tax was progressive, rising with the percentage rate of profits. Neither the American nor the British tax was free from serious defects, which gave rise to much criticism until both taxes were repealed in 1921. But the former, being assessed on the actual rate of profits, was clearly better fitted to become permanent than the British tax, which was based, save in exceptional cases, on pre-war rates of profit and was therefore inherently an emergency tax that could not be continued for an indefinite period without the existing defects and hardships becoming intolerable.

The corporation profits tax, which was introduced in 1920 with the intention that it would eventually take the place of the excess profits duty, was imposed solely on limited liability companies. In its most productive year, the yield exceeded £23 millions, but during its first year, 1920-21, it was somewhat disappointing, and instead of a budget estimate of £3 millions, it produced only £650,000. This deficiency was attributed to the initial difficulty of starting the tax and to the immense amount of other work falling upon the Revenue authorities. The tax resembled the excess profits duty in being a tax on a business as such, and in this and other ways had no relation to the ability to pay of the individuals who had ultimately to pay it. It had many other defects and its life was short, being repealed by Mr. Snowden in 1924.

CHAPTER III.

CUSTOMS AND EXCISE.[1]

In 1913-14, Customs and Excise provided more than two-fifths of the total tax revenue of this country. For several decades, their importance relatively to that of Inland Revenue had been decreasing, and this tendency was accentuated by war taxation until the budgets of 1918 and subsequent years caused a movement in the opposite direction. It was, however, only relatively to other taxation that Customs and Excise showed any decline during the period under review, for the yield from this source increased from £75 millions in 1913-14 to nearly £334 millions (approximately 32 per cent. of the total tax revenue) in 1920-21.

During this period of financial stress, some of the indirect taxes were found to be capable of yielding a considerably expanded revenue, while others proved to be useless or worse than useless for helping to meet the additional war expenditure. Attempts were made to find new sources of Customs and Excise revenue, but the additional revenue obtained from new taxes was of comparatively little importance. In this respect, Customs and Excise were a striking contrast to Inland Revenue, where at one period the yield of the war tax on excess profits almost equalled

[1] See Table No. XVI.

that of the income-tax. Many of the principal European nations have in recent years found substantial sources of new indirect tax revenue in sales or turnover taxes. Such taxes have become in some countries the most productive single source of revenue, and are one of the outstanding features of modern tax development. This type of tax, however, has found little favour in this country although, it will be remembered, Mr. Bonar Law attempted to introduce a so-called luxury tax in 1918.

In view of the close relation between real wages and indirect tax revenue, the movements of wages and prices during our period need some consideration.[1] Retail and wholesale prices, which commenced to rise at the outbreak of war, rose continuously—apart from slight fluctuations—until 1920, wholesale prices reaching their maximum in May, while retail prices, exhibiting the normal lag, continued to rise for another six months. The maxima of the Ministry of Labour index numbers, reached in November, 1920, were 291 for retail prices of food, and 276 for "Cost of Living," compared with a basic figure of 100 in July, 1914.

The concurrent movements in wages cannot be expressed in such a simple fashion. In normal times, there are many difficulties of measurement, but under the unprecedented conditions created by the war, these difficulties were accentuated. Broadly, however, it may be stated that rates of wages, as distinguished from the total earnings of each worker, lagged behind prices, while earnings in many cases, owing to the longer hours being worked, the virtual dis-

[1] See also note on p. 369 and Table No. IV.

appearance of unemployment, and other factors, increased more rapidly than prices from August, 1914, until the Armistice. Wage rates continued to rise, and attained their maximum in most industries before the end of 1920. The movements in wages were not uniform throughout industry, and it is probable that by 1920, while some classes were on the whole worse off than in 1914, others—particularly the lower paid workers—had improved their position.

The rates of wages and earnings clearly affect the amount of money available for the purchase of dutiable articles, a fact which is particularly noticeable in the case of dutiable luxuries. The reverse effect, that of indirect taxes upon wages, was in pre-war days less obvious and undoubtedly less certain, but towards the end of the war the method of basing wage rates on the Cost of Living figure was adopted in certain industries and was subsequently extended to many others. All dutiable articles are not covered by the Cost of Living figure, notable exceptions being alcoholic liquors. As an illustration of the effect of indirect taxation on the index figure, and thus on certain wage rates, it may be stated that an increase of 1d. in the retail price of a pound of tea, of a pound of sugar, of a dozen boxes of matches, of an ounce of tobacco, or of the popular packet of ten cigarettes, would mean increases in the Cost of Living index figure of 0·22, 1·65, 0·05, 0·10, or 0·13 respectively.

The principal indirect taxes in 1913-14 were those on alcoholic liquors and tobacco, which provided more than 80 per cent. of the total Customs and Excise revenue, and, when the need came, these duties proved to be capable of very considerable expansion.

The expansion of revenue might have been substantially greater in the case of beer and spirits, had it not been deemed expedient to restrict consumption, not only by the limitation of hours of sale but also by the more direct method of restrictions on the quantities produced or delivered. These restrictions were imposed in order to conserve the food supply, and to prevent excessive drinking which might have adversely affected production or have had peculiarly undesirable social effects under war conditions. It is probable that the rates of duty on beer, spirits, and tobacco at no time exceeded the limit of maximum productivity, and at certain periods were a good deal below it.

It is interesting to notice the varying effects of war conditions on the productivity of these duties. In 1913-14, spirits headed the list with £24 millions, tobacco came second with £18 millions, beer was third with £13½ millions, while liquor licences and wine produced respectively £4½ millions and a little over £1 million. By 1915-16, beer had risen to the head of the list as the result of the November, 1914, increase in the rate, while tobacco, the duty on which had not been increased until nearly a year later, was running spirits close. Comparative freedom from restrictions, together with a further increase in the duty, enabled tobacco by 1917-18 to forge ahead of beer and spirits, which were handicapped by restrictions that became more and more stringent as the war went on. When, however, the restrictions on the supplies of beer and spirits were eventually removed, the true relative taxable capacities of the commodities began to be revealed. By 1920-21, beer with £123 millions had left the others far behind, spirits coming second with

£71 millions, an exceptional yield which it failed to maintain, and tobacco third with £55 millions. For two years of our period, wine was more productive than licence duties, which, owing to the rebates allowed to licence holders as compensation for the limitation of hours, produced less instead of more revenue for several years.

The largest amount of new revenue was obtained from beer, the net receipts from which, as we have seen, increased from £13½ millions in 1913-14 to more than £123 millions in 1920-21, the main rate of duty rising during the same period from 7s. 9d. to £5 per standard barrel of 36 gallons. Such increases, even allowing for variations in the value of money, would to the pre-war mind have appeared impossible. The first increase in November, 1914, met with determined opposition from the brewers, who maintained that it would mean ruin to a large number, but their pessimism was unfounded, and in spite of the further increases to 50s. in 1918, to 70s. in the following year, and to £5 in 1920, the brewers had, until 1920-21 at least, one of the most prosperous periods they had ever enjoyed, mainly owing to the artificial conditions created by the control of prices and other restrictions. The first war increase in the duty was followed by a fall in consumption, but from 1916 until 1919, changes in the rate of duty had no effect on consumption, as the latter was governed entirely by the restrictions on output, supply at no time equalling the demand. Production, which in 1913-14 amounted to over 35 million standard barrels, was reduced by successive war-time restrictions until by April, 1917, the annual production was limited to a rate of 10 million barrels.

The restrictions on output were gradually relaxed, and by the middle of 1919 had all disappeared. The control of average gravities and retail prices continued until September, 1921.

The story of spirits differs somewhat from that of beer. The consumption of spirits, which, in the years immediately preceding the war, was temporarily moving in an upward direction, mainly owing to the improved industrial conditions, fell with the increase of unemployment at the commencement of hostilities. It subsequently recovered as employment improved, until by the beginning of 1915 the rate of consumption rose to a level which had not been attained since the duty was increased in 1909. Consumption now declined, mainly owing to the restrictions of the Liquor Control Board in the shape of reduced hours of sale, the prohibition of treating, and greater dilution of spirits, and to the Immature Spirits Act and high prices. From April, 1917, when deliveries were limited to one-half of those for 1916, until November, 1919, when after some relaxations the restrictions on deliveries were finally removed, consumption was limited only by the supply and was practically unaffected when the main duty was increased in April, 1918, to 30s., and in May of the following year to 50s.

When the restrictions on deliveries of spirits were removed, the effect of price on consumption automatically commenced to operate once more, and although deliveries showed an immediate and considerable expansion, a large part was undoubtedly due to the replenishment of traders' stocks which had been depleted during the period of restrictions;

and with the further increase in the duty in 1920, the resulting increase of prices very materially influenced consumption, which was also affected by the industrial depression. Deliveries during 1920-21 amounted to only a little more than 20 million proof gallons, compared with $32\frac{1}{2}$ million gallons in 1913-14. It may be added that the decline in the consumption of spirits was not merely temporary, but has been practically continuous ever since, largely on account of the high prices, the restrictions on hours of sale, a change in habits mainly brought about by war conditions, and the industrial depression.

The least productive of the pre-war duties on alcoholic liquors was that on wine. The wine duty, the oldest of the existing Customs duties, remained unchanged from 1899 until 1919, when the introduction of Imperial Preference reduced the duties on Empire wines, with little immediate effect, however, on either consumption or receipts. During the war period, the consumption of wine remained fairly normal prior to the period of restrictions on imports—February, 1917, to June, 1918. On removal of the restrictions, consumption recovered, and in 1919-20. deliveries almost reached 20,000,000 gallons, approximately 70 per cent. higher than the pre-war figure and almost equal to the record deliveries of the 'seventies. The unprecedented increase in consumption was one of the reasons for the increased duties in the 1920 budget, which, however, were somewhat disappointing in their effects on the revenue. Although other factors, including the industrial depression, affected consumption, there is little doubt but that the increased duties, and more particularly

the heavy *ad valorem* duty on sparkling wines, very materially restricted deliveries.

In spite of a decline in the consumption of all varieties of wine in 1920-21, the total still exceeded the figure for 1913-14, wine thus being a notable exception from the other alcoholic liquors, the consumption of which showed a marked decline compared with the pre-war figures. The relative increase in wine consumption, which was particularly marked in the case of the heavier wines, was at first mainly attributable to the less stringent restrictions on deliveries of wine compared with those on other liquors, but it persisted when these restrictions had been removed. This was mainly due to the greater increases in the price of other alcoholic liquors, to changes in habits under war conditions, and to the absence of any reduction in the alcoholic strength of wine such as had been brought about in the case of beer and spirits.

The tobacco duty, which proved to be the most productive of the indirect taxes during the war, was raised by successive stages as experience showed the possibility of further expansion. The main rate, which in 1914 was 3s. 8d. per lb., was increased in September, 1915, by 50 per cent., and in May, 1917, by a similar amount. The resulting increase in prices caused considerable dissatisfaction amongst consumers, with the result that the main duty was reduced to 6s. 5d. as from July. In April, 1918, however, the duty was once more advanced, this time to 8s. 2d., a figure at which it remained for many years.

The various increases in the duty and in prices, however, appeared to have little effect on consump-

tion, which would undoubtedly have been higher than it actually was, had the Tobacco Control Board not found it necessary in 1917, owing to the serious depletion of stocks, to restrict deliveries to the level of those of the preceding year. When the restrictions were removed, consumption, in spite of increased taxation and prices, continued to soar, and in 1919-20 deliveries amounted to the record figure of nearly 149 million lbs., or more than 3 lbs. for every man, woman, and child in the kingdom. Although the increase in deliveries during the period, from a *per capita* figure of 2·19 lbs. in the calendar year 1914 to 3·15 lbs. in 1919 and 2·96 lbs. in 1920, cannot be taken as a strictly accurate representation of the change in consumption, as the deliveries for 1919, and possibly 1920, were swollen by the replenishment of duty-paid stocks, actual consumption undoubtedly increased to a remarkable extent. The economic depression which set in in 1920, in conjunction with increased tobacco prices, had its inevitable effect on the quantity smoked, but by 1925 consumption once more reached the 1920 level. The increased popularity of smoking may be attributed mainly to the rapid spread of the habit amongst women, and to the general increase of smoking under war conditions.

Although less productive than the taxes on alcohol and tobacco, the " Breakfast Table Duties " proved capable of producing a substantial amount of additional revenue when the need arose. The most productive of these duties was that on sugar, which was increased during the war from 1s. 10d. per cwt. to 25s. 8d., an increase of 1,300 per cent. and the largest percentage tax increase during our

period. This enormous proportional increase was accomplished in three stages, the main duty rising to 9s. 4d. in 1915, to 14s. 0d. in 1916, and to 25s. 8d. in 1918, corresponding changes being made in the dependent duties. The receipts from the sugar duties, which in 1913-14 were a little over £3¼ millions, amounted in 1919-20 to £42 millions, but fell in 1920-21 to £30½ millions, mainly owing to a world-shortage of sugar. Supplies, during almost the whole of the period, were the controlling factor, price appearing to have relatively little effect on total consumption, although probably affecting the consumption of particular classes. The Sugar Commission, which was appointed at an early stage of the war, aimed at selling sugar at such prices as would merely cover purchase price and expenses, including the tax, but was compelled in 1919-20 and 1920-21 to sell below cost price, thus incurring during the two years a loss of nearly £22 millions. When considering the burden of the duty on the sugar consumer in these years, it is obviously essential to take into account this sum, which amounted in practice to a bounty on consumption.

Of the other "Breakfast Table Duties," the most productive was that on tea, which was increased in the first war budget from 5d. to 8d. per lb., and in the following year to 1s. 0d. The yield of the duty advanced from £6½ millions in 1913-14 to nearly £17 millions in 1920-21. Here again supplies were an important factor. A system of rationing was enforced, and during a part of 1917 the weekly ration was as low as 1½ ozs. a head, but with the withdrawal of all restrictions, clearances showed a remarkable

expansion. It is noteworthy that, owing partly to the scarcity of alcoholic beverages and to the fact that the price of tea at no time rose as high as the general price level, the *per capita* consumption of tea increased from a pre-war figure of 6·8 lbs. to 8·5 lbs. in 1920-21, an increase which has since been more than maintained. During our period, the duties on cocoa, coffee, chicory, and dried fruits were advanced by successive stages, a few additional millions being obtained in this way. Cocoa was the most productive, yielding nearly £1,800,000 in 1920-21 compared with a pre-war yield of £340,000.

The remaining pre-war duties were of relatively little revenue importance. The motor spirit duty, which was increased from 3d. to 6d. per gallon in 1915, provided an extra million or two during the war, but consumption was necessarily restricted by the war rationing system. The licences under the latter system provided something less than a million in all. The motor spirit duty had many defects, and in 1921 it was replaced by a revised system of vehicle licence duties. War conditions also had an adverse effect on the railway passenger duty yield, which was at no time very considerable, and in 1917 practically disappeared, for the time being, when the principal railway companies were taken over by the Government. Patent medicines were more productive, and were amongst the few dutiable commodities the consumption of which increased in spite of an increase in the duty. The yield from this source increased from £360,000 in 1913-14 to £1,370,000 in 1920-21, but however satisfactory this might be from the revenue point of view, the increase in the consumption of these

medicines, which vary in character from genuine scientific preparations to secret and sometimes harmful mixtures, is not from other points of view an unmixed blessing. The remaining item, "Other Licences," included motor car licences (*net receipts*) which in 1913-14 amounted to £674,000, fell to as low as £256,000 in 1918-19, and in the following year rose to £1,133,000. From January 1st, 1921, motor vehicle duties were paid to the Minister of Transport, and appeared under a separate heading in the national accounts. Apart from the motor spirit licence duty, the balance of "Other Licences" consisted of the non-liquor licences, which varied only slightly and yielded approximately half a million a year.

The new duties imposed during the war may be divided into two classes: those where the revenue yield was not the main object, and those imposed mainly or entirely for revenue purposes. The first class consist of the new import duties introduced in 1915 by Mr. McKenna. These duties, better known perhaps as the McKenna Duties, were imposed at the rate of $33\frac{1}{3}$ per cent. *ad valorem* on motor cars and motor cycles, clocks, watches, and musical instruments, while specific duties were imposed on cinematograph films. The duties were intended to restrict the importation of unnecessary luxuries, thus saving shipping space and beneficially affecting the foreign exchanges, while at the same time yielding a certain amount of revenue. The use of duties for the purpose of restricting imports was not extended to other articles, the Government adopting instead the policy of prohibition of importation except under licence.

The system of prohibition of importation except under licence was applied gradually to most of the articles subject to the McKenna Duties, thus adversely affecting the revenue yield and at the same time rendering the restrictive effects of the duties of little practical importance. With the removal of the import restrictions, the yield of the duties increased, and in 1920-21, largely owing to the abnormal post-war demand for motor cars, reached the record figure of approximately £5½ millions. It may be added that although in 1915 the Chancellor of the Exchequer and other Cabinet Ministers had emphasized the purely temporary character of these duties, they were renewed from year to year after the war until 1924, when, for eleven months, they disappeared from the tariff. The main argument advanced in support of their retention was the need for revenue, but the free traders declined to accept this explanation and each year strongly opposed the duties on the grounds of their definitely protective character.

Passing to the second class of war-time duties, we come to the most successful of the war-time indirect tax innovations, the entertainments duty. It proved to be fairly productive, the yield rising to a maximum—in 1920-21—of £11¾ millions, which represented 3·5 per cent. of the total Customs and Excise revenue. The tax was admittedly not free from defects. It probably tended to encourage less desirable habits, such as drinking, and it lacked generality, mainly owing to administrative limitations, while, what was of more practical importance, it had the serious defect that changes in the rates were shifted very slowly in certain cases from the entertainments proprietors to those

who were intended ultimately to pay the tax. On the other hand, the tax had certain good points in addition to that of productivity. Although, prior to the abolition of the impost on the cheaper seats, it was said to press heavily on the poorer classes, it was a tax on a luxury rather than on a necessary, and on that ground much to be preferred to some of the other indirect taxes. Finally, it was collected economically, in spite of the system of exemptions granted to various philanthropic and other entertainments.

Less successful were the duties imposed by the same Act on cider and table waters. The duty on cider was at no time productive, the maximum yield, that of 1917-18, amounting to only £144,000, while the large number of cider-makers rendered impossible an effective and economical system of collection, and it is not therefore surprising that in 1923 the Government decided to abolish the duty. More productive were the duties on table waters, although for various reasons they were less productive than had been anticipated, and in their most fruitful year yielded less than £1½ millions.

The duty on matches, in spite of the 50 per cent. increase in 1918, was not at first a success from the point of view of productivity, but improved somewhat when the war-time restrictions disappeared. From its introduction up to 1920-21, it yielded in all approximately £10½ millions, so the tax was not entirely unsuccessful, and it had, moreover, certain good points. It was collected economically, and might be regarded as a tax on a luxury rather than a necessary, in that a large proportion of the total

production of matches is consumed by the tobacco smoker. The duty on mechanical lighters, imposed to restrict the use of the substitutes for matches, yielded an insignificant revenue and in 1921 was abolished, only to reappear in a modified form seven years later.

At the end of our period, the British system of indirect taxation appeared, as it were, under a magnifying glass. The total receipts, even after due allowance has been made for the higher level of prices, had very substantially increased, but in other ways there was surprisingly little change. In 1920-21, nearly four-fifths of the total Customs and Excise revenue came from the various taxes on alcoholic liquors and tobacco, while the breakfast table duties yielded one-seventh of the total, proportions which in each case differed little from those of 1913-14. The new war duties provided less than 7 per cent. of the Customs and Excise receipts. During this period, the basic character of the British system of indirect taxation remained substantially the same. The duties were, mainly, for revenue only. The McKenna Duties, whatever their original purposes, were now clearly of a protective character, but these duties were in themselves of secondary importance, whether regarded from the point of view of revenue yield, or from that of the proportion of our imports affected. They might be regarded as a relic of war-time measures rather than as taxes of an avowed protectionist character. The period of openly protective taxes had not arrived. The Imports and Exports Regulation Bill of 1919 and the Protection of Industries Bill of 1920, each of which was intended to protect certain

industries against abnormal post-war foreign competition, had failed to reach the statute book, and it was not until the passage of the Safeguarding of Industries Bill of 1921 that a beginning can be said to have been made in taxation of an avowedly protective character.

CHAPTER IV.

FINANCING THE WAR.

The question as to whether Britain was prepared for the war has often been asked, and has evoked many and varied answers, but from the standpoint of financial organization there is only one answer, an unqualified negative. The crisis in the autumn of 1914 soon disclosed the absence of any previously prepared scheme for the effective mobilization of our financial system, and it was fortunate, therefore, that the emergency measures, promptly taken by the Government acting in close co-operation with the City, met with a very large measure of success.

It will be remembered that the Austrian ultimatum was delivered to Serbia on July 23rd. The probability of the impending conflict being prevented or localized rapidly diminished, and this was inevitably reflected in money and stock markets. The Continental bourses, one after another, shut their doors, and on Friday, July 31st, the London Stock Exchange followed suit. The following day, the bank rate went with a final jump to 10 per cent. There is no need to recount here in detail the various measures adopted to restore confidence and to enable the credit system to function once again: the extension of the Bank Holiday, the proclamation of a moratorium, the

creation of an emergency currency and the discounting of pre-moratorium bills by the Bank of England under Government guarantee, followed later by other measures, all played their part.

On the outbreak of war, the Government was faced with the necessity of obtaining Parliamentary sanction for the large immediate increase in expenditure necessarily involved in the prosecution of the war. Two methods were open to the Treasury : they might have provided by way of supplementary estimates or by way of votes of credit. For some decades, votes of credit had been regarded with some disfavour, and on the occasion of the last South African War the whole of the abnormal expenditure was provided by ordinary and supplementary estimates.

In 1914, however, conditions were vastly different. It was recognized—though at first perhaps only dimly—that war on an unprecedented scale was ahead and that State interference over a large area of the nation's activities would be inevitable. Furthermore, it was impossible to estimate with any degree of accuracy the expenditure necessary, and it was considered that any detailed estimates might provide the enemy with valuable information.

The Treasury therefore decided in favour of votes of credit, and on August 7th, 1914, a vote was taken for £100 millions. Such votes continued to be taken at intervals of two or three months or so, but as the war proceeded, the rapid increase in expenditure was reflected in the votes, as the following table shows :

VOTES OF CREDIT, 1914 TO 1918.

	£ millions.
August 7th, 1914	100
November 20th, 1914	225
March 3rd, 1915	37
Total 1914-15	362
March 3rd, 1915	250
June 16th, 1915	250
July 21st, 1915	150
September 16th, 1915	250
November 15th, 1915	400
February 22nd, 1916	120
Total 1915-16	1,420
February 22nd, 1916	300
May 24th, 1916	300
July 25th, 1916	450
October 12th, 1916	300
December 15th, 1916	400
February 14th, 1917	200
March 16th, 1917	60
Total 1916-17	2,010
February 14th, 1917	350
May 11th, 1917	500
July 25th, 1917	650
October 31st, 1917	400
December 13th, 1917	550
Total 1917-18	2,450
March 11th, 1918	600
June 19th, 1918	500
August 2nd, 1918	700
November 13th, 1918	700
Total 1918-19	2,500
Grand Total	8,742 millions.

The Vote of Credit was in the following form :

NAVAL AND MILITARY OPERATIONS, ETC.
(VOTE OF CREDIT)

For DEFRAYING EXPENSES which may be incurred during the year ending on the 31st day of March 1915 for all measures which may be taken for the SECURITY of the COUNTRY ; for the conduct of NAVAL and MILITARY OPERATIONS ; for assisting FOOD SUPPLY ; for promoting the CONTINUANCE of TRADE, INDUSTRY, BUSINESS and COMMUNICATIONS, whether by means of insurance or indemnity against risk or otherwise ; for RELIEF of DISTRESS ; and generally for all expenses arising out of the existence of a state of war - - - - - £100,000,000

It was therefore possible for any vote to be supplemented to meet expenditure which could be described as " expenses arising out of the existence of a state of war," and from 1915-16 to 1918-19 inclusive, only token votes were taken for the fighting services, while the Civil Services votes were taken on a peace basis. It must not, however, be assumed, as has sometimes been done, that the provision for the fighting and other services from votes of credit necessarily meant that financial control was thereby practically abandoned. All expenditure against such votes was subject to the normal control through the Treasury, the Comptroller and Auditor-General, and the Public Accounts Committee, and the token vote provided opportunities for Parliamentary criticism of the relative services. The absence of detailed estimates may appear at first sight as a dangerous relaxation of financial procedure, but it is easy to over-estimate the importance of estimates as a means of financial control under modern Parliamentary conditions.

The story of war taxation has been told in the first part of this volume. There in some detail it was related how taxes, new and old, were used for the purpose of obtaining revenue, but references to borrowing—at an ever-increasing cost to the Government—were of necessity brief and desultory, and it is proposed to give here a short summary of the various methods of borrowing adopted to meet the war deficits.

On August 26th a resolution was introduced in Committee of Ways and Means providing "That for the purpose of raising the Supply granted to His Majesty for the service of the year ending 31st March 1915, the Treasury may borrow in such manner as they think fit on the security of the Consolidated Fund . . .," and a Bill embodying the resolution was thereupon read for the first time.

This Bill, which was to provide the sums already voted by the House, differed from similar Bills of the past in that it neither limited the amount which might be raised nor prescribed the manner in which the money was to be obtained. Mr. Lloyd George admitted that, owing to the dislocation of the money market, the Government had been unable to decide as to the best method to adopt. "We have financed the war," he said, "for the time being by means of Treasury Bills, but the time will come when we must come to a decision to raise the money by a more permanent method. That time has not yet arrived, and we hope the House will allow us for the time being to get full power to raise this money by the means which we are advised for the time being are the best means of raising it." The Bill met with very

little criticism, and within two days received the royal assent. As the need arose, subsequent War Loan Acts were passed authorising the Treasury "to make further provision for raising Money for the present War, and for purposes incidental thereto."

The war was at first financed largely by means of Treasury Bills and Ways and Means Advances. The disorganization of the credit system, while evidently encouraging, by its effect on the money market, temporary borrowing by the Government, precluded the adoption of a more permanent method. In November, however, the Government decided to float the first War Loan.

Mr. Lloyd George would apparently have preferred an issue at par, but, mainly owing to City opinion, it was issued in the form of a $3\frac{1}{2}$ per cent. loan at 95, redeemable on March 1st, 1928, or at the Government's option on or after March 1st, 1925. This loan was for the fixed amount of £350 millions, and was soon over-subscribed. In addition to this sum, there was obtained during the financial year 1914-15, under the provisions of the War Loan Act, 1914, £50 millions from the issue of Exchequer Bonds (1920) and £$66\frac{1}{2}$ millions from Treasury Bills, making a total of £$466\frac{1}{2}$ millions. The net increase, however, in the dead-weight debt was somewhat less than this figure owing to the cancellation of Exchequer Bonds, the temporary repayment of Treasury Bills, the reduction of the capital liability of annuities, and similar factors.

In 1915-16, the National Debt was increased by considerably more that £1,000 millions. More than one-half of this sum was obtained from the $4\frac{1}{2}$ per cent. War Loan (1925-45) issued at par in June, 1915.

Subscribers were granted various conversion rights, with the result that a further £314 millions of the loan was issued to replace Funded Debt and 3½ per cent. War Loan. They received the additional right to convert their holdings of the 4½ per cent. loan into any subsequent Government loans with certain exceptions. A further £155 millions of new money was obtained from Exchequer Bonds issued in December, 1915.

This financial year saw the introduction of the War Savings Certificate, an innovation specially designed to attract the savings of the small investor, a class which had hitherto been ignored in war finance. The first series of War Savings Certificates, which appeared in February, 1916, were issued at 15s. 6d., and were repayable at the expiration of five years at £1, the accumulated interest being free of income-tax. The holder had the option of withdrawing his money at any time, together with accumulated interest, but the latter varied according to a scale designed to encourage the holding of certificates until maturity. The success of these certificates was largely attributable to the work of the National Savings Committee which was inaugurated at the same time and soon had its local organizations working in the furthermost parts of the country. It is interesting to note that the freedom from income-tax and other features proved attractive to classes other than those for whom the certificates were specially designed. Of the £341 millions obtained from their sale up to the end of 1920, nearly £62 millions came from the sale of certificates for the maximum permitted holding of £500 (issue price, £387 10s.), and nearly £84 millions from the sale of certificates exceeding £26.

Two further financial expedients adopted during 1915-16, and rendered necessary by the pressing problems of the foreign exchanges, were, firstly, foreign borrowing, and secondly, the mobilization of foreign securities, at first without the compulsory element subsequently found necessary. Foreign borrowing consisted of 250 million dollars from the Anglo-French loan floated in New York in October, 1915, and Canadian Government loans to the tune of 45 million dollars.

In 1916-17, expenditure exceeded revenue by over £1,600 millions. The deficit was met mainly by the third great War Loan which was floated in January, 1917, in the form of a 5 per cent. loan (1929-47) issued at 95, and a 4 per cent. loan (1929-42) issued at par, the latter being income-tax compounded. Conversion rights were granted to holders of previously issued war securities, and under these provisions, more than three-fifths of the 5 per cent. Exchequer Bonds and 97½ per cent. of the second War Loan were converted, but less than 13 per cent. of the 6 per cent. Exchequer Bonds were converted by holders.

The total amounts of the two loans issued (including relatively small amounts issued in 1917-18) were as follows :

	5 per cent. War Loan.	4 per cent. War Loan.
	£	£
For cash - - -	844,802,000	22,046,000
For Treasury Bills, etc., surrendered - -	130,205,000	612,000
For 4½% War Loan converted - - -	820,346,000	23,199,000
For Exchequer Bonds converted - - -	280,461,000	6,561,000
	2,075,814,000	52,418,000

These figures show the relative importance of the conversion operations. The lack of popularity of the 4 per cent. tax-compounded loan reflected the investor's optimistic outlook towards the possibility of future taxation. In connection with both loans, the Government undertook to provide for a special Depreciation Fund, while a further feature likely to increase their popularity was the Government undertaking to accept, subject to certain conditions, the stock and bonds at their issue price in payment of death duties.

During 1916-17, a further seventy millions were obtained from War Savings Certificates, Exchequer Bonds brought in more than £140 millions, while the External Debt increased from £60 millions to over £360 millions. The Floating Debt amounted on March 31st, 1917, to £681 millions, a sum which Mr. Bonar Law declared in his budget speech "must be regarded as satisfactory," an opinion unlikely to meet with unanimous approval. The total was made up of £463½ millions of Treasury Bills and £217½ millions of Ways and Means Advances, the latter figure including £157 millions borrowed in anticipation of instalments of the third War Loan not due until after the end of the financial year.

The following financial year, 1917-18, ended with a deficit of £1,989 millions, the largest in our history. A considerable part of this was met by the continuous issue of National War Bonds, the first series of which appeared in October, 1917. In this series, four classes of bonds were issued, all at par, repayable at 102 in 1922, 103 in 1924, 105 in 1927 and at par in 1927, the last class being income-tax compounded. A second

series were offered in March, 1918, precisely similar save that the redemption dates were six months later in each case. These two series, and the third issued subsequently, carried certain conversion rights, and were also, subject to certain conditions, presentable as cash in payment of death duties.

During the year, War Savings Certificates provided £63 millions of new money, while the External Debt showed an increase of £627 millions, loans from the United States amounting to 2,500 million dollars. The entrance of the United States into the war transformed the financial position of the Allies, but in spite of the fact that the former had advanced to our other Allies £450 millions during the year, this country advanced them a further £505 millions. The advances made by us to the Allies during the year were, therefore, approximately equal to the loans (2,500 million dollars) received by us from America. Floating Debt showed a disturbing rise, a decline of £25 millions in Ways and Means Advances being completely overshadowed by an increase of over £500 millions in Treasury Bills.

With the conclusion of hostilities, expenditure fell considerably. Instead of the estimated figure of £2,972 millions, the actual Exchequer Issues amounted to £2,579 millions, and of this amount, £889 millions or 34·4 per cent. was met from revenue. More than one-half of the deficit of £1,690 millions was obtained from further issues of National War Bonds. The third series was offered in September, 1918, on terms identical with those of the two preceding series except that the dates of redemption were different and that the tax-compounded bonds were offered at 101½

instead of at par, owing to the increase in the income-tax rates.

In January, 1919, a further and final series of National War Bonds was issued in the form of 5 per cent. bonds at par redeemable in 1924 at 102, similar bonds redeemable in 1929 at 105, and income-tax-compounded 4 per cent. bonds issued at 101½ and redeemable at par in 1929. Other borrowing included nearly £90 millions from War Savings Certificates, while the External Debt showed a net increase of nearly £300 millions.

A disturbing feature of the debt problem was the huge amount of Floating Debt, which attained its maximum of £1,550 millions on December 31st, 1918. The issue of War Bonds (4th series) in January, 1919, together with the normal end-of-the-year increase in revenue, enabled a substantial decrease to be effected by the end of the financial year, but there still remained outstanding on March 31st, Treasury Bills amounting to £957 millions and Ways and Means Advances to the tune of £455 millions, a position obviously pregnant with grave possibilities.

Although, with the cessation of hostilities, expenditure had immediately shrunk, it was inevitable that some time must elapse before it would fall to anything approaching a normal figure or what, under the changed conditions, might be regarded as a normal figure. In 1919-20, expenditure amounted to £1,666 millions, and of this 80·4 per cent., or £1,340 millions, was met by revenue, thus leaving a deficit of £326 millions. New borrowing during 1919-20 mainly took the form of a 4 per cent. Funding Loan, 4 per cent. Victory Bonds, Exchequer

Bonds, War Savings Certificates and Treasury Bills.

The 4 per cent. Funding Loan (1960-90) and the Victory Bonds were both issued in June, 1919, the former at 80 and the latter at 85. Two features of these securities were conditional acceptance in payment of death duties, and the creation of a specific sinking fund—to be devoted in the case of Victory Bonds to annual drawings at par calulated to wipe out the Bonds by 1976. £289 millions of Funding Loan was issued for cash, and £120 millions in respect of conversions of 4½ per cent. War Loan, Exchequer Bonds, and the first three series of National War Bonds. The Victory Bonds were not quite so productive, £288 millions being issued for cash and £71½ millions in respect of conversions. This conversion into loans issued below par, while having little effect on the interest charge, obviously increased the nominal amount of the debt.

Some improvement had been made as regards the Floating Debt, but it still stood at a dangerously high figure. A satisfactory feature was the reduction in Ways and Means Advances from the Bank of England, which on March 31st, 1919, had amounted to £228½ millions but were entirely repaid before March 31st, 1920. Unfortunately, however, the non-renewal of Treasury Bills made it necessary to borrow £55 millions from the Bank during the first ten days of April.

The considerable increases in taxation introduced by Mr. Chamberlain in 1920, although not immediately bearing full fruit, substantially contributed to the revenue total for 1920-21 of £1,426 millions, a figure swollen by abnormal Miscellaneous Revenue and by

the rise in the price level. Expenditure had fallen to £1,195 millions, so for the first time since 1913-14, the year's finances ended with a surplus; some new debt was created, but the total outstanding was reduced by about £250 millions, and on March 31st, 1921, stood at £7,585 millions.

Against this might be set the assets—good, bad and indifferent—of loans to Dominions, Allies and others outstanding at the same date. These, including unpaid interest, amounted to £1,963 millions, as follows:

	£
Loans to Dominions and Colonies - -	156,525,000
Loans to Allied Governments - - -	1,783,712,000
Loans for Relief - - - - -	16,737,000
Loans for Reconstruction - - -	3,550,000
Other Loans: Stores, etc. - - -	2,830,000
	1,963,354,000

Inextricably bound up with the question of borrowing was that of the Currency Note. The wider and controversial questions involved in connection with the note issue will be dealt with in the next chapter. Here we would confine ourselves to one or two less controversial aspects of the matter.

Every £1 or 10s. currency note issued in excess of the metallic reserve was to the Government practically equivalent, for the time being, to £1 or 10s. for nothing, and it may well be asked where the receipts from this source figured in the national accounts. Some light may be thrown upon this and other questions by the following brief history of the currency note.

The Currency and Bank Notes Act, passed on August 6th, 1914, authorized the Treasury to issue

currency notes for £1 and 10s., which were made legal tender for any amount. A Treasury Minute of the same date provided for the issue of the notes, through the Bank of England, to any bank up to an amount not exceeding 20 per cent. of the total liabilities on deposit and current accounts of the borrowing bank. The notes were to be treated as an advance from the Treasury to the borrowing bank bearing interest at current bank rate. Notes might be issued also on somewhat similar conditions for the purpose of providing cash for the Post Office Savings Bank fund or for any other Savings Bank. The Minute provided that all sums paid as interest on these advances were to be paid to the Bank of England, and were, after deduction of the expenses incurred by that Bank, to be paid into the Exchequer.

The currency note was thus introduced as an emergency currency in readiness for a possible run on the banks, but the provisions for the issue of notes as a loan soon became inoperative in practice although they were not formally withdrawn until after the war. There was no run on the banks, and it was not surprising that a currency upon which interest had to be paid did not find favour with the banks.

A different policy was thereupon adopted by the Treasury. On August 20th, a further Minute was issued providing for the issue of currency notes, upon payment of face value, to any person, and it was in this way that the huge number of notes ultimately found their way into circulation. The Bank of England was required to keep an account called the Currency Note Redemption Account, which was debited with the amount of notes issued and credited

with the amounts received in payment for notes. A bank desiring to obtain notes did so by transferring the necessary amount from its balance at the Bank of England to the credit of the Currency Note Redemption Account. For some years, gold amounting to £28½ millions was held in the Account, but any cash balance in excess of this amount was borrowed by the Government and their own securities substituted. The interest on these securities was credited to the Account, which was thus in effect a lender of money to the Government receiving the same treatment as other lenders.

Under a Minute of May 3rd, 1915, however, the Treasury ordered that all interest payments into the Note Account should be utilized firstly to provide a fund, termed the Investments Reserve Account, to meet possible losses upon realization of securities, and, when this Reserve Account exceeded 5 per cent. of the total securities held and advances outstanding by more than £100,000, the excess was to be paid into the Exchequer.

Such payments appeared in the national accounts under the head of Miscellaneous Revenue, and for the years under review were as follows :

	£
Up to 1916-17 - -	*Nil*
Year 1917-18 - -	1,975,000
Year 1918-19 - -	4,239,500
Year 1919-20 - -	12,700,000
Year 1920-21 - -	16,970,000

These sums, being interest on Government securities, would at the same time be included on the expenditure side of the national balance sheet under the head of Debt Services, so that the net effect was the same as

if the relative amount had been treated as a loan free of interest.

The following table shows the average amount of currency notes in circulation (in the December quarters) during the years 1914 to 1921 :

	£
December Quarter, 1914 -	33,719,000
,, 1915 -	88,598,000
,, 1916 -	138,670,000
,, 1917 -	192,651,000
,, 1918 -	298,610,000
,, 1919 -	342,639,000
,, 1920 -	353,558,000
,, 1921 -	315,417,000

On December 15th, 1919, following the suggestions of the Cunliffe Committee on Currency and Foreign Exchange, a Treasury Minute was issued limiting the issue of currency notes during the year 1920 to £320,600,000 (the maximum fiduciary issue during 1919) except against gold or Bank of England notes, and thenceforward the note issue during any year was not to exceed the actual maximum fiduciary circulation of the preceding twelve months. The amount obtained by the Government by the issue of currency notes from their introduction in 1914 until 1920 was therefore approximately £320 millions. And if this amount be regarded as a forced loan from the community to the Government, the subsequent reduction of the fiduciary issue was analogous in many respects to the repayment of a portion of that loan. Ignoring the indirect effects it was identical, from the point of view of the Exchequer, to the repayment of a loan upon which no interest was being paid.

The war was financed very largely by loans and

taxes, but, as readers will remember, there were other, and far from negligible, sources of income appearing in the national accounts. These included the net profits of the postal services, which may be regarded as taxation where any real net profits are earned, receipts from Suez Canal shares and sundry loans, together with the so-called Miscellaneous Revenue. At the beginning of the war, the principal items of Miscellaneous Revenue were fee and patent stamps and the profits of the Mint, but, subsequently, the total was considerably increased by such items as war contributions from India and the Colonies, the surplus income from the Currency Note Investment Reserve Account, and, after the war, by the huge sums derived from the realization of war assets.

CHAPTER V.

WAR FINANCE POLICY

During the period of war deficits—from 1914-15 to 1919-20 inclusive—the total expenditure amounted to £11,259 millions, while the corresponding revenue amounted to only £4,073 millions, leaving an aggregate deficit of £7,186 millions to be met by borrowing. The dead-weight debt increased from £650 millions on March 31st, 1914, to £7,832 millions on March 31st, 1920, an increase of £7,182 millions, which is almost identical with the total of the annual deficits. The slight difference between the two amounts, although perhaps at first sight what might be naturally expected, was rather in the nature of a coincidence and was the result of various conflicting factors, such as the policy of providing in the budget for debt interest and sinking funds and the issue of certain loans other than at par.

A substantial part of the debt outstanding was attributable to the policy adopted at an early stage of the war—not for the first time in our history—and continued long after hostilities ceased, of granting financial assistance to our Allies, and, though to a much less extent, to our Dominions and Colonies. The loans outstanding on March 31st, 1920, including unpaid interest, amounted to £1,852 millions. (See

Table, No. XVII.) The question of repayment, involving problems of infinite complexity, has given rise to discussions and negotiations, the end of which is not yet in sight, but these are outside our present period.

The following table of Exchequer Receipts and Issues shows the total expenditure, tax revenue, non-tax revenue, deficits, and (in parentheses) the percentage of total expenditure for each item, during the years 1913-14 to 1920-21.

EXPENDITURE AND REVENUE, 1913-14 TO 1920-21.

	Expenditure.	Tax Revenue.	Non-Tax Revenue (Post Office, Miscellaneous etc.).	Total Revenue.	Deficit (to be borrowed).
	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands
1913-14 -	197,493 (100·00)	163,029 (82·55)	35,214 (17·83)	198,243 (100·38)	Surplus
1914-15 -	560,474 (100·00)	189,305 (33·78)	37,389 (6·67)	226,694 (40·45)	333,780 (59·55)
1915-16 -	1,559,158 (100·00)	290,088 (18·61)	46,679 (2·99)	336,767 (21·60)	1,222,391 (78·40)
1916-17 -	2,198,113 (100·00)	514,105 (23·39)	59,323 (2·70)	573,428 (26·09)	1,624,685 (73·91)
1917-18 -	2,696,221 (100·00)	613,040 (22·74)	94,195 (3·49)	707,235 (26·23)	1,988,986 (73·77)
1918-19 -	2,579,301 (100·00)	784,278 (30·41)	104,743 (4·06)	889,021 (34·47)	1,690,280 (65·53)
1919-20 -	1,665,773 (100·00)	998,960 (59·97)	340,611 (20·45)	1,339,571 (80·42)	326,202 (19·58)
1920-21 -	1,195,428 (100·00)	1,031,725 (86·31)	394,260 (32·98)	1,425,985 (119·29)	Surplus

There is no need to emphasize once more the fact that both sides of the national balance sheet were fundamentally affected by the rising level of prices. The table shows, for example, an increase in the tax revenue from £163 millions in 1913-14 to £1,032 millions in 1920-21, a nominal increase of 533 per cent., which, however, becomes much less striking when allowance is made for the change in the price level; the tax revenue in 1920-21, reduced to pre-war values (on the basis of the cost of living figure) is in the neighbourhood of £400 millions, an increase of something less than 150 per cent.[1]

The total revenue during the years 1914-15 to 1919-20 amounted to £4,073 millions, or 36·17 per cent. of the total expenditure (including loans to Allies and Dominions) during that period, and although this proportion of revenue to expenditure was the highest attained by any of the principal belligerents, with the exception of the United States, there has been in this country no lack of critics who, while reserving special criticism for particular budgets, have attacked what they describe as the unnecessary

[1] The use of the cost of living index figure in this way for reducing tax revenue figures to pre-war values is obviously not free from objection (more particularly in the case of direct taxation), but such a method, if its limitations be kept in mind, gives interesting results. The tax revenue figures for 1913-14 and subsequent years have been thus reduced to pre-war values, and are shown in Table No. IV at the end of the volume. This table shows that the tax revenue for 1920-21, usually regarded as the period of maximum taxation, as indeed it was if regard be paid merely to the nominal total, is put into the shade by the 1919-20 total, while the tax revenue for 1928-29 (and certain other post-war years) although less than that of 1919-20, is higher than the "record" figure for 1920-21, when both are reduced to pre-war values. In other words, reduction of taxation since 1921 has failed to keep pace with the fall in the cost of living index figure, and, *on that basis*, the aggregate real tax burden in 1929 is greater than it was in 1921.

reliance placed on loans throughout the whole war period.

It is perhaps not surprising, in view of the repercussions of a loan policy on taxation and the distribution of wealth, that some of the most trenchant criticisms have come from the Labour Party. Mr. Philip Snowden, one of the ablest of financial writers in modern politics, declared in *Labour and the New World* that the existence of the debt " is a monument to the criminal folly or cowardice of our statesmen. If the Government had had the courage in the early days of the war to levy higher taxation, this debt would never have been contracted. The cowardice of the Government in not increasing taxation in the first years of the war left a vast spending power in private hands which was devoted to luxury and other forms of extravagance, and the system of borrowing inflated purchasing power and led to the increase in the cost of living, with the disastrous financial and commercial consequences which are now revealed." It is interesting to compare this with the opinions of some of the foreign writers quoted below.

Mr. Hartley Withers was one of many economists who, from the early years of the war, were in favour of a greatly increased revenue from taxes. In *Our Money and the State* (1917), he denounced as fallacious the idea that borrowing at home transferred the burden of war expenditure to posterity, and he contended that taxation ought to be substantially increased in order that industry might not be too heavily burdened during the post-war period of reconstruction, and after. He gave four further reasons for additional taxation: firstly, because

taxation is more easily raised during a war, owing to the stimulus of patriotism ; secondly, because taxation is less hindrance to industry under war conditions ; thirdly, because borrowing in war-time resulting in post-war increases in taxation penalises those who do the actual fighting ; and, finally, because of the twofold benefit of taxation in giving the Government revenue and at the same time checking the consumption of private individuals who otherwise compete for a limited supply of goods and thus force up prices.

Mr. Withers did not, like some writers, go so far as to suggest that the whole of the war expenditure might have been met by taxation, but he maintained that " a well-informed and benevolent despot, with a perfectly docile people, would see that if there is money in the country that he can get by borrowing, he can also get it by taxing if he sets about it in the right way." If by " money " Mr. Withers means the goods and services which money can buy, his contention appears to be true only within certain limits, even assuming the benevolent despot and the docile people. And in practice, while taxation may be increased for a time without having any very considerable effects upon production, there is clearly a limit, vary though it may according to time, conditions, and country, beyond which taxation cannot be increased without very substantially affecting production.

An interesting question in connection with finance by loans, and one upon which much ink has been spilt, is " Can the burden of war costs be shifted to the future ? " It is clear that the nation may suffer in the future from the destruction and depreciation of human

and material capital, and from the diversion of the normal annual savings to unproductive purposes, or, on the other hand, may conceivably gain from war indemnities or in other less direct ways. This has always been more or less a commonplace, but not until recent years was it generally recognized that the cost of war must be defrayed mainly from current production. It will be remembered that this axiom of war finance was stressed by Lord Courtney of Penwith during the course of a speech in 1916 which is quoted in the first part of this book. A shell made in 1950 cannot be fired in 1918. It is clear that, apart from the stock of materials at home, together with materials which can be obtained from abroad (the importance of both of which is likely to vary inversely with the duration and scale of hostilities), war can be carried on only by means of currently produced services and commodities. In other words, the objective costs of war must be mainly borne by the present and cannot be transferred to the future.

But the question is less simple when we look below the objective costs to the subjective costs, from the costs expressed in terms of money to the feelings or sacrifice entailed, and it is here that there is considerable diversity of opinion. Two of the principal protagonists are Professor Pigou and Professor Seligman, but, differing as they do on the question of the subjective costs of war, they come close together as they approach the practical side of the question of taxes versus loans. Professor Pigou points out that unduly heavy taxation might lead "to a serious contraction of that real income of services and goods from which alone the real war fund could be drawn,"

while the American professor declares that "war taxes should be large and immediate, but should never be stretched beyond the point where they begin to lessen the social output, to hamper the transfer of pre-war to war production, or to press unduly on desirable consumption." And this no doubt partially explains why, in the numerous works of these two authorities, there is little or none of that caustic criticism of British war-time financial policy that may be found elsewhere.

The most serious criticism of the Government's financial policy after 1914 has perhaps been that directed against the so-called inflation of credit and currency. As the Cunliffe Committee explained, much of the credit expansion arose because the Government were unable—or as some critics would have it, failed—to meet their expenditure by receipts from taxation and loans from the actual savings of the people ; the Government were consequently obliged to obtain purchasing power through the creation of credits by the Bank of England and by the Joint Stock Banks, with the result that purchasing power increased faster than purchasable goods and services, thus automatically causing prices to rise. This, together with the credits created by the Bank of England under the various emergency schemes adopted by the Government at the outbreak of war, were mainly responsible for an increase in the Bank's deposits from £56 millions in July, 1914, to £273 millions in July of the following year, and, in spite of various reductions, the total stood as high as £172 millions in August, 1918. The total deposits of the banks of the United Kingdom (excluding the Bank of

England), which, on December 31st, 1917, were £1,743 millions compared with £1,071 millions on December 31st, 1913, inevitably reflected, though to a less degree, the increase in the deposits of the central Bank.

Mr. McKenna, in an address delivered at the annual meeting of the Midland Bank in 1920 (reprinted in his *Post-War Banking Policy*), estimated that bank deposits other than those of the Bank of England amounted in 1914 to £1,070 millions, and had increased by December, 1919, to £2,300 millions. He said that payments of currency into the banks accounted for £116 millions of the increase, and contended that £1,100 millions was the result of bank loans.

The main process was clearly described in the oft-quoted paragraph of the Cunliffe Committee's Interim Report, which is worth repeating once more.

"Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England —in other words, is transferred from Public to 'Other' Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint Stock Banks and the bankers' cash at the Bank of England by the same amount. The bankers' liabilities to depositors having thus increased by £10,000,000 and their cash reserves by an equal amount, their proportion of cash to liabilities (which was

normally before the War something under 20 per cent.) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government and returned in the manner above described to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount."

In pre-war days these processes, if continued, would have compelled the Bank of England to raise its discount rate, but this check upon the expansion of credit had become inoperative since the Treasury had made it possible for the banks to convert any portion of their balances at the Bank of England into currency notes.

Whether banks can create credit is of course a hotly disputed question, but if the account given by the Cunliffe Committee be accepted as valid, then it follows that the creation of credit in this manner, while enabling the Government to obtain additional purchasing power, also enabled the banks to create credit to lend to the Government at interest. And this seems almost indistinguishable from allowing the banks to impose taxation on the community. Leaving this debatable ground, we will consider some of the effects of inflation which are obvious and beyond dispute.

In the first place, the rise in prices caused the national expenditure to be very substantially higher than it would otherwise have been. But there was no commensurate increase in the yield from existing taxation. The rise in prices was followed by increased profits, which meant a higher income-tax yield, but owing to the method of assessment, income-tax receipts lagged behind the rise in prices and profits, while the yield of indirect taxation, which consisted almost entirely of specific duties with only a few, relatively unimportant *ad valorem* duties, was unresponsive to increases in prices, profits, or wages, except perhaps as regards any indirect effects upon consumption.

Another important result of inflation was that the Government borrowed at a time when prices were high, that is, when the value of money was low, and this meant that as prices subsequently fell to a lower level and the value of money rose, the actual burden of debt interest or repayment increased. In some countries, on the other hand, depreciation of the currency has meant a substantial reduction of the debt burden, and, in some cases, has amounted practically to repudiation. The fall in the value of money might have resulted in this country in gradually reducing the burden of interest payments on existing debt (so long as prices continued to rise), but this effect was largely nullified by the various conversion privileges offered to attract subscriptions to war loans and which became operative when further loans were issued.

Socially, the effects of inflation were important and far-reaching. The unrest resulting from the rise in the cost of living, from the unduly large profits made

by certain sections of the people, and from other effects of the rise in the price level (which, it may be mentioned once more, was not wholly the result of inflation), was a matter of grave concern for the Government, and might easily have had more serious consequences both during and after the war.

Inflation has many serious disadvantages for the Chancellor of the Exchequer, but it has at least one merit in that it renders possible new and productive forms of taxation—taxation of the abnormal profits caused or rendered possible by inflation. The direct gain derived by a Government from inflation is temporary and relatively small, unless inflation be continued to the extreme limit, or, at any rate, much farther than it was in this country, but the effects on the distribution of the national income continue indefinitely ; some people are not materially affected, some—those, for example, with fixed monetary incomes—may be seriously penalised, while others benefit, the more fortunate ones acquiring abnormal and excessive profits over a lengthy period. In war-time, the taxing of these abnormal gains is rendered easy, if not actually forced upon the Government, for excess profits during a time of general sacrifice arouse a deep sense of injustice and irritation in the public mind. It is not therefore surprising that during the war the great nations generally adopted such taxation, particularly in view of its productivity. In this country, the excess profits duty during its brief existence brought into the Exchequer nearly £1,200 millions.

But the total increase in our revenue which can be credited to inflation, including the relatively small

direct profit from currency depreciation, the increase in the yield of existing taxation, and the net yield from the special taxation of excess profits, was quite inadequate during the period under review to counterbalance the increase in expenditure due to the rise in prices. The net effect of inflation was, therefore, to widen the gap between expenditure and revenue, and this obviously meant an increase—beyond that otherwise necessary—of borrowing or of the real tax burden, or of both.

In this connection, it is interesting to note that one eminent financial authority, maintaining that the taxation of war gains could and should have been carried much further than it actually was, has gone so far as to suggest that the best method of financing any future great war would be a policy of deliberate inflation, and the use of profiteers and others with increased incomes as virtual collectors of taxes who would be compelled to disgorge their gains, as soon as practicable after receipt, by specially devised forms of taxation. Such a state of things, as we have seen, was gradually approached—through force of circumstances and other causes rather than of set design—as the late war ran its course. To a Government in financial difficulties, inflation will always offer an easy way out; and the entire avoidance of inflation during a great war may be well-nigh impossible, if not even undesirable. But a deliberate policy of inflation on an extended scale is a different matter, and although it might provide the necessary revenue, its disadvantages would be many, and one cannot easily conceive of any practicable system of taxes which would neutralize its glaring inequalities.

For inflation is a form of indirect taxation of the worst possible kind, its incidence is arbitrary and its effects are grossly unjust and in the main definitely inimical to national interests. Some economists have described inflation as a hidden tax proportional to income, but this description is unsatisfactory in at least two respects, firstly, because the tax effect is of too arbitrary a character either to be proportional or to depend on one factor, and, secondly, because it is related not to a person's income so much as to his expenditure, and to the direction of that expenditure, seeing that the change in the price of the almost unlimited number of commodities and services varies very materially.

There is, however, another side of the picture which is sometimes overlooked. The nation had to effect a gigantic transference from a peace-time to a war-time equilibrium, with the least possible delay. Those industries which were capable of supplying war requirements were subject from the first to a vastly increased demand which continued to expand rapidly throughout the war. To cope with this demand, the war industries had to enlarge their plants and increase their staffs. The stimulus of patriotism, powerful though it might be, was insufficient, without the additional incentives of higher profits and wages, to ensure that the transition from peace to war equilibrium should proceed with the utmost possible speed. Failing a comprehensive and effective system of Government control of labour and capital, the expansion of the industries in question would have been delayed unless immediate and substantial advances had been forthcoming from the banks.

Under such conditions, an inflexibly austere financial policy would have meant either that the war industries would have been starved of credit, or that, in order to grant them the necessary advances, the bankers would have been compelled to restrict the credit of less essential industries so drastically as to produce serious economic, and possibly political, disturbance and dislocation. Inflation offered a way out of these difficulties. It served to grease the wheels of the transition from peace to war organization of industry, and to diminish the friction and waste associated with it. But grease, applied in excessive quantities, ceases to lubricate and begins to clog. And that is what happened. The process of inflation was continued far beyond what could be justified on industrial grounds, and its harmful repercussions were felt throughout industry, and every other branch of the national life.

But inflation, as we have already seen, was the only way of making ends meet, so long as the Government income (including loans obtained from the actual savings of the people) was insufficient to cover expenditure. Loans from actual savings might have been increased, within certain limits, by the offer of higher rates of interest, but such a policy—at the best only a temporary palliative—would obviously have been disastrous. There remained three possible methods which might have been adopted to restrict within relatively narrow limits the necessity for inflation : increased taxation, compulsory loans, and Government organization and control of all forms and grades of labour at an early stage of the war. There was much to be said in favour of an industrial force,

organized and paid on terms analogous to those obtaining in the fighting forces, although the difficulties, political and economic, in the way of such a scheme might have been immense. Compulsory loans would have presented fewer difficulties, but such loans, which are clearly a disguised form of taxation, are on the whole less to be preferred than the more overt forms of taxation. Increased taxation offered the simplest solution. And there is little doubt that throughout the whole war period, taxation might have been substantially higher than it actually was without affecting, save in the right direction, the national will and power to prosecute the war to a successful conclusion.

Further charges brought against British war-time financial administration were those in respect of extravagance and lack of efficient financial control. The charges of extravagance and waste were far from unfounded and receive much support in numerous Government publications, including the various reports of the Select Committees on National Expenditure during and after the war. As regards the alleged lack of financial control, it may be contended that during war, and particularly war on such a stupendous scale as that of 1914-18—with expenditure ever increasing and branching out in every direction—some relaxation of financial control is inevitable unless Treasury staffs are to be very substantially increased, a course of action which is precluded by an insistent and often irrational public demand for drastic staff reductions in all civil departments. And in any case, a certain degree of relaxation is desirable on the broad ground that, at such times, finance is not the sole or

most important consideration, while strict financial control such as is essential in times of peace may seriously hinder the conduct of the war. On the other hand, still more serious consequences are likely to follow undue weakening of financial control and consequent squandering of national resources. And there is little doubt but that the recent Great War was accompanied by extravagance and waste on an unprecedented scale in this country, as indeed it was in all the belligerent countries. Everywhere it was bad, but the knowledge that British financial administration was no worse, and was probably better, than that of most other countries, is little compensation for the permanent addition to the burden of a National Debt grossly distended by the squandered millions.

Here we would pause for a moment to glance at the theory of public expenditure, a subject which, incidentally, has been a good deal neglected by economists. In the brief space devoted to expenditure in many of the well-known works on public finance, one finds a discussion of the differences between public and private finance, and after a short analysis, four or five differences are usually enumerated. It is suggested, for example, that while an individual's expenditure is determined by his income, a public authority's income is, broadly, determined by its expenditure, a statement which required some additional qualification during the financial stresses of the later stages of the war. Emphasis is also laid on the different aims of public and private spending; on the compulsory character of State action; on the possible existence of "sinister interests" opposed to

the general welfare ; and on differences in the respective spheres of action.

But we venture to think that there is a further difference which has apparently been overlooked, a difference which at first sight may appear to be covered by those mentioned above, yet is essentially distinct, is fundamental, and has had very important consequences in practice. This difference is that in the case of a private person, the " Utility " derived from expenditure and the " Disutility " involved in having to find the necessary money to meet it is, broadly, experienced by one and the same person, with whom rests normally the final decision whether or not the expenditure is to take place. Whereas, in the case of the State, the " utility " derived from expenditure and the " disutility " of obtaining the necessary revenue are necessarily divorced or distributed amongst different persons or classes of persons. For example, the " utility " of a given State expenditure may accrue mainly or partially to a monarch, a party, a class, the majority of the electorate, or to the nation as a whole, but the " disutility " of having to provide the necessary public revenue falls mainly (but not wholly, as we mention later) upon the tax-payer or upon certain classes of tax-payers.

At certain stages of political development, the distinction may not be of great practical importance, but in most cases the divorce of the " utility " of expenditure from the " disutility " of having to provide the necessary revenue is obviously likely to have very important consequences. A particular instance is that of the modern democracy where policy may be ultimately controlled by, and in the

interests of, the majority of an electorate consisting mainly of the poorer classes, while revenue is obtained mainly from a minority of wealthier persons. But the principle that the divorce of the " utility " of expenditure from the " disutility " of having to provide for it may fundamentally affect the extent and character of expenditure is capable of wide application, and in fact applies throughout the whole range of public finance. One or two examples must suffice.

As early as 1706, the House of Commons, recognizing the applicability of the principle to a particular case, passed the historic resolution that they would receive no petition for any sum of money relating to public services but what was recommended from the Crown, and this, seven years later, became a Standing Order. This means in practice that the right of proposing expenditure rests solely with the Cabinet upon whom falls the responsibility of providing for the necessary revenue to meet it. Therefore, the " utility " derived by the Cabinet (*e.g.*, the satisfaction of knowing that suggested expenditure will promote the highest interests of the nation, or, on the other hand, will tend to further the interests of the governing party at the next election) is counterbalanced by the " disutility " involved in providing the necessary revenue (*e.g.*, fear that such taxation may injure the interests of the nation as a whole, or, say, the fear that additional taxation may lose votes at the next election).

War-time provides many examples of the divorce of the " utility " of expenditure from the corresponding " disutility " involved, the crowning example of which is that war expenditure is incurred by living persons while the " disutility " of finding the necessary

revenue is largely shifted—or, what comes to the same thing in practice, the average tax-payer believes it is largely shifted—to that vague body of persons we call posterity who cannot complain. There is no need to emphasize the fact that if living tax-payers had had to provide sufficient revenue to cover expenditure without the aid of loans, war expenditure and the war itself would have pursued a vastly different course.

At this stage, it may be worth while to glance as it were through foreign eyes at our financial policy and problems during the war.

American writers are on the whole indulgent critics of our war finance. Mr. Fisk, in his well-known *English Public Finance from the Revolution of 1688*, remarks that "Englishmen and their newspaper editors delight in heckling and finding fault with the Administration, as we would say, the Government, as they say. But to the observer, 3,000 miles away, quietly studying the figures without any other object than to get at the facts, the results achieved seem little short of marvellous. They could only be obtained in a country where patriotism runs so high that the people demand to be taxed and taxed heavily."

Less enthusiastic is Dr. H. F. Grady, at one time American Trade Commissioner to London, who wrote *British War Finance, 1914-19*, while he was residing in this country, a fact which perhaps explains in some measure the conclusions he reached. "Except for the general criticism of inadequacy of taxation," he says, "and the suggestion that the Excess Profits Duty should have been on a 100 per cent. instead of an 80 per cent. basis, little can be said in condemna-

tion of British taxation policy during the war. It was sound in theory and most efficiently directed." Whether a 100 per cent. tax on excess profits would have been sound either in theory or in practice is a question with which we have dealt elsewhere. Dr. Grady, while maintaining that "greater revenue should and could have been obtained from those who were able to pay more and demonstrated this ability by their large subscriptions to war loans," concludes that British war finance, regarded as a whole, was under the circumstances remarkably successful.

And now for one or two Continental opinions, commencing with that of one of the best known of foreign writers on war finance, Professor Gaston Jèze. Throughout his numerous works on the subject, in which he does not fail to point out the weaknesses of war-time financial policy and administration in this and other countries, one finds nevertheless numerous complimentary references to British methods. If judgment is passed on British war-time finance as a whole, he says, in the sixth edition of his *Cours de Science des Finances*, the impartial observer, free from political prejudices, can only do homage to the financial policy followed by the British Government. From 1914 to 1918, he concludes, "C'est là une magnifique page de l'histoire financière de l'Angleterre."

Another French financial writer, M. Georges Lachapelle, passing judgment in *Les Finances Britanniques*, holds the view that British war finance was on the whole far superior to that of other belligerents. He refers to the school of British writers who criticized the British Government's policy on the grounds of insufficiency of taxation, excessive ex-

penditure, and inflation, etc., criticisms which he says were applicable with much greater force to French war finance, and concludes, " Si l'on peut critiquer certains des moyens employés pour faire face aux dépenses de la guerre, on doit reconnaître que certains autres ont été assez honorables et assez courageux pour excuser en quelque sorte les expédients dont on a usé."

A typical German opinion may be found in *Die deutsche, englische und französische Kriegsfinanzierung* by Dr. Knauss. The financial policy of Great Britain from 1914 to 1918, the author remarks, best met the demand that war costs should be met as far as possible from taxation. English war taxation, he says, was built up on the basis of a sound and productive peace-time tax system ; the rates of direct taxation were so increased that the receipts were multiplied eightfold. Indirect taxation could also be utilized fully as the existing system of consumption taxes were imposed on luxuries, but the direct income taxation bore the main burden. And he comments favourably—not unnaturally perhaps in view of his own country's experience—on what he describes as the low proportion of loans and on the fact that the good name of the " Zentralbank " was not sacrificed to currency depreciation.

In view of the wide divergencies of opinion on the subject, it may well be asked what is the fundamental principle which should govern financial policy during such a war. It seems clear that public finance should be used and directed with one aim, and one aim only, namely, the successful conclusion of hostilities at the earliest possible moment. The

fundamental principle, therefore, which should govern every public financial operation, big or little, is the principle of maximum fighting power. This is more comprehensive than may at first sight appear, for to ensure that the power of a nation as a fighting unit is raised to a maximum, it is necessary that due consideration be given not only to political and administrative, but also to economic and ethical factors.

In conclusion, we would consider to what extent the financial policy and administration of Great Britain during the late war complied with this principle of maximum fighting power. That the maximum fighting power of the nation was not attained is undisputed and indisputable. Waste of any sort must of necessity adversely affect the national powers, and waste, on a hitherto unparalleled scale, was everywhere. Furthermore, failure to attain the optimum point of taxation, failure to reduce to a minimum all unnecessary consumption, and failure to avoid serious social discontent, must also necessarily weaken the nation as a fighting unit, and in all these directions British financial policy undoubtedly failed.

But failure to reach perfection does not necessarily call for unqualified condemnation. Rates of taxation, and its total amount, were increased to heights which, even allowing for the changes in the price level, would to the pre-war mind have seemed impracticable and incredible. We cannot, however, like some foreign observers, describe British war finance as marvellous or magnificent, nor can we, on the other hand, agree with those Englishmen who would term it disgraceful or criminally lax. The truth lies obviously between these two extremes. British financial administration

(on the expenditure side) and general financial policy during the war might have been very much better. Considering the difficulties they might easily have been very much worse. A doubtful consolation, perhaps, but a consolation denied to some of the other belligerent nations.

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TABLE I.

IMPERIAL REVENUE (EXCHEQUER RECEIPTS) OF THE UNITED KINGDOM

1913-14 to 1920-21.

(Compiled from the separate Budget Tables.)

	1913-14.	1914-15.	1915-16.	1916-17.	1917-18.	1918-19.	1919-20.	1920-21.
	£000	£000	£000	£000	£000	£000	£000	£000
Customs	35,450	38,662	59,606	70,561	71,261	102,780	149,360	134,003
Excise	39,590	42,313	61,210	56,380	38,772	59,440	133,663	199,782
Total Customs and Excise	75,040	80,975	120,816	126,941	110,033	162,220	283,023	333,785
Motor Vehicle Duties	—	—	—	—	—	—	—	7,073
Estate, etc., Duties	27,359	28,382	31,035	31,232	31,674	30,262	40,904	47,729
Stamps	9,966	7,577	6,764	7,878	8,300	12,438	22,586	26,591
Land Tax	700	630	660	640	665	630	680	650
House Duty	2,000	1,930	1,990	1,940	1,960	1,850	1,960	1,900
Income-Tax and Super-Tax	47,249	69,399	128,320	205,033	239,509	291,186	359,099	394,146
Excess Profits Duty, etc.	—	—	140	139,920	220,214	285,028	290,045	219,181
Corporation Profits Tax	—	—	—	—	—	—	—	650
Land Value Duties	715	412	363	521	685	664	663	20
Total Inland Revenue	87,989	108,330	169,272	387,164	503,007	622,058	715,937	690,867
Total Tax Revenue	163,029	189,305	290,088	514,105	613,040	784,278	998,960	1,031,725
Postal Service	21,190	20,400	24,100	24,350	25,200	29,400	31,000	36,100
Telegraph Service	3,080	3,000	3,350	3,350	3,500	3,800	4,850	5,200
Telephone Service	6,530	6,250	6,450	6,400	6,600	6,800	8,300	8,200
Crown Lands	530	545	550	650	690	760	680	660
Receipts from Suez Canal Shares and Sundry Loans	1,580	1,277	2,432	8,056	6,056	11,680	shown	below.
Receipts from Sundry Loans, etc. — Ordinary	—	—	—	—	—	—	1,004	991
Receipts from Sundry Loans, etc. — Special	—	—	—	—	—	—	13,948	29,780
Miscellaneous — Ordinary	2,304	5,917	9,797	16,517	52,149	52,303	16,050	25,389
Miscellaneous — Special							264,779	287,940
Total Non-Tax Revenue	35,214	37,389	46,679	59,323	94,195	104,743	340,611	394,260
Total Revenue	198,243	226,694	336,767	573,428	707,235	889,021	1,339,571	1,425,985

TABLE II.

IMPERIAL EXPENDITURE (EXCHEQUER ISSUES) OF THE UNITED KINGDOM.

1913-14 TO 1920-21.

(Compiled from the separate Budget Tables.)

	1913-14	1914-15.	1915-16.	1916-17.	1917-18.	1918-19.	1919-20.	1920-21.
	£000	£000	£000	£000	£000	£000	£000	£000
National Debt: Fixed Charge	24,500	20,497	20,338	19,783	19,828	23,638	23,773	24,500
„ „ Other Charges	—	2,172	39,911	107,467	170,023	246,327	308,261	325,099
Road Improvement Fund	1,395	1,528	694	—	—	—	—	8,937
Local Taxation Accounts	9,734	9,529	9,757	9,896	9,731	9,681	10,746	10,785
Land Settlement	—	—	—	—	—	—	3,477	6,930
Other Consolidated Fund Services	1,694	1,694	2,788	1,974	1,670	1,699	1,948	1,796
Total Consolidated Fund Services	37,323	35,420	73,488	139,120	201,252	281,345	348,205	378,047
Army	28,346	28,886	15	15	15	15	395,000	181,500
Navy	48,833	51,550	7	17	17	17	156,528	88,428
Air Force	—	—	—	—	—	7	52,500	22,300
Ministry of Munitions	—	—	2	1	1	1	} 569,054	460,216
Civil Services	53,901	56,956	54,718	54,113	61,242	67,988		
Customs and Excise and Inland Revenue	4,483	4,602	4,603	4,728	5,156	5,532	9,422	11,259
Post Office Services	24,607	26,060	26,673	26,454	25,738	26,396	48,064	53,678
Total Supply Services	160,170	168,054	86,018	85,328	92,169	99,956	1,230,568	817,381
Votes of Credit	—	357,000	1,399,652	1,973,665	2,402,800	2,198,000	87,000	—
Total Expenditure	197,493	560,474	1,559,158	2,198,113	2,696,221	2,579,301	1,665,773	1,195,428
Total Revenue (Exchequer Receipts)	198,243	226,694	336,767	573,428	707,235	889,021	1,339,571	1,425,985
Realized Surplus	750	—	—	—	—	—	—	230,557
„ Deficit	—	333,780	1,222,391	1,624,685	1,988,986	1,690,280	326,202	—

TABL

ACTUAL GROSS EXPENDITURE IN EACH OF TH

——	1913-14. Audited Expenditure.	1914-15. Audited Expenditure.	1915-16. Audited Expenditure.	1916-17. Audited Expenditure
	£	£	£	£
Consolidated Fund Services.				
National Debt Services	24,500,000	22,668,896	60,249,311	127,250,493
Road Fund	1,394,951	1,528,365	694,395	—
Payments to Local Taxation Accounts	9,734,128	9,529,134	9,756,851	9,895,466
Land Settlement	—	—	—	—
Other Consolidated Fund Services	1,693,890	1,693,414	2,787,790	1,973,697
Total Consolidated Fund Services	37,322,969	35,419,809	73,488,347	139,119,656
Supply Services.				
Army †	35,208,842	255,298,143	543,187,549	629,863,458
Navy	50,819,150	105,858,129	211,421,914	224,972,939
Air	—	—	—	4,434
Total Fighting Services	86,027,992	361,156,272	754,609,463	854,840,831
Civil Services.				
War Pensions	—	—	—	1,995,932
Loans to Dominions and Allies	—	51,825,591	315,967,183	544,665,165
Railway and Canal Agreements, including Coastwise Transport Subsidy.	—	6,851,957	5,879,876	16,870,964
Bread Subsidy	—	—	—	—
Housing Subsidies	—	—	—	—
Housing Advances	—	—	—	—
Treasury Securities Deposit Scheme	—	—	—	—
Miscellaneous War Services, Foreign Office	—	141,163	2,463,666	5,335,898
Munitions †	—	—	246,720,787	559,439,949
Shipping	—	—	—	8,087,024
Food Department	—	—	—	6,004
Ministry of Transport	—	—	—	—
Coal Mines Deficiency	—	—	—	—
Export Credits	—	—	—	—
War Graves Commission	—	—	—	—
Old Age Pensions	12,425,821	12,614,047	12,658,071	13,810,281
Public Education	19,169,647	20,031,043	20,282,996	20,092,095
Board of Agriculture	850,072	994,947	823,638	781,150
Ministry of Health and Health Insurance	5,341,163	7,318,245	7,557,550	6,141,590
Ministry of Labour and Unemployment Grants.	1,161,712	1,317,886	1,305,511	2,419,360
Police	1,681,583	1,696,993	1,748,238	1,796,583
Prisons	1,010,080	990,104	894,427	838,220
Foreign and Colonial Services	1,669,463	2,160,516	1,813,140	1,783,962
Works, Buildings and Rates	3,621,378	3,764,075	4,106,428	4,251,410
Stationery and Printing	1,232,735	1,526,254	2,492,486	3,029,685
Mint, including Coinage	143,374	140,375	158,507	154,552
Miscellaneous non-recurrent Services	—	—	—	—
Other Civil Services	6,698,694	6,975,547	7,102,683	7,574,309
Miscellaneous Vote of Credit Services	—	12,488,847	96,580,434	71,123,687
Total Civil Services	55,005,722	130,837,590	728,555,621	1,270,197,820
Revenue Departments.				
Customs and Excise, and Inland Revenue	4,578,227	4,810,774	4,752,177	5,143,704
Post Office	24,882,527	27,414,140	30,871,144	32,699,313
Total Revenue Departments	29,460,754	32,224,914	35,623,321	37,843,017
Total Supply Services	170,494,468	524,218,776	1,518,788,405	2,162,881,668
Total Gross Expenditure	207,817,437	559,638,585	1,592,276,752	2,302,001,324
Balance	750,000	—	—	—

* Issues from the Consolidated Fund to the Road Improvement Fund were suspended early in 191 by the Finance (No. 2) Act, 1915, s. 49, but a grant of £8,250,000 was voted in 1919-20. *See* Note ‡.

† Expenditure from the Ordnance Factories Vote is included under Munitions for the years 1915-1 to 1919-20 inclusive and under Army for other years.

EARS 1913-14 TO 1920-21 INCLUSIVE. (Cmd., 1665.)

1917-18. Audited Expenditure.	1918-19. Audited Expenditure.	1919-20. Audited Expenditure.	1920-21. Audited Expenditure.	——
£	£	£	£	*Consolidated Fund Services.*
89,851,066	269,964,650	332,033,708	349,598,616	National Debt Services.
—	—	—*	8,936,689	Road Fund.
9,730,538	9,680,811	10,746,142	10,785,504	Payments to Local Taxation Accounts.
—	—	3,477,447	6,929,793	Land Settlement.
1,670,481	1,699,406	1,947,631	1,796,275	Other Consolidated Fund Services.
201,252,085	281,344,867	348,204,928	378,046,877	Total Consolidated Fund Services.
				Supply Services.
602,992,962	974,033,762	521,479,983	216,825,469	Army.†
246,924,336	356,044,688	188,254,064	112,793,809	Navy.
2,531,974	85,445,084	56,614,616	23,949,370	Air.
052,449,272	1,415,523,534	766,348,663	353,568,648	Total Fighting Services.
				Civil Services.
24,451,228	50,634,470	98,934,666	106,645,516	War Pensions.
88,344,866	264,575,684	137,908,771	24,456,929	Loans to Dominions and Allies.
26,156,970	48,610,564	56,489,249	43,093,316	Railway and Canal Agreements, including Coastwise Transport Subsidy.
—	—	50,460,166	39,663,457	Bread Subsidy.
—	—	2,653	3,292,745	Housing Subsidies.
—	—	1,186,663	6,422,972	Housing Advances.
—	—	1,864,892	1,569,180	Treasury Securities Deposit Scheme.
3,095,256	12,082,230	5,858,459	4,218,244	Miscellaneous War Services, Foreign Office.
715,101,222	562,227,196	192,843,559	32,922,770	Munitions.†
94,771,284	285,466,121	104,956,385	40,923,511	Shipping.
805,496	4,281,680	2,722,226	1,729,255	Food Department.
—	—	148,361	612,539	Ministry of Transport.
—	—	26,131,201	15,000,000	Coal Mines Deficiency.
—	—	13,984	452,230	Export Credits.
—	8,000	1,249,478	1,490,250	War Graves Commission.
17,134,461	17,776,900	19,163,523	25,157,569	Old Age Pensions.
24,702,215	25,719,344	42,610,904	58,318,053	Public Education.
1,105,588	1,184,500	5,438,547	6,356,813	Board of Agriculture.
7,617,697	9,286,977	12,321,887	15,394,970	Ministry of Health and Health Insurance.
5,518,324	20,549,739	48,833,235	28,561,932	Ministry of Labour and Unemployment Grants.
1,941,753	3,500,482	9,604,013	13,850,744	Police.
942,022	1,073,717	1,481,320	1,973,584	Prisons.
1,961,214	2,269,637	2,914,997	5,394,519	Foreign and Colonial Services.
5,695,545	8,319,431	10,201,374	12,766,689	Works, Buildings and Rates.
5,380,828	8,366,693	5,723,042	5,379,653	Stationery and Printing.
157,553	222,915	148,107	230,898	Mint, including Coinage.
—	—	8,250,000‡	6,499,620§	Miscellaneous non-recurrent Services.
10,690,364	15,116,690	} 17,651,559	20,609,375	{ Other Civil Services.
151,039,784	58,279,235	}		{ Miscellaneous Vote of Credit Services.
386,613,670	1,399,552,205	865,113,221	522,987,333	Total Civil Services.
				Revenue Departments.
5,839,189	6,817,049	10,123,896	12,740,648	Customs and Excise, and Inland Revenue.
37,519,166	43,237,913	48,993,450	63,215,746	Post Office.
43,358,355	50,054,962	59,117,346	75,956,394	Total Revenue Departments.
782,421,297	2,865,130,701	1,690,579,230	952,512,375	Total Supply Services.
983,673,382	3,146,475,568	2,038,784,158	1,330,559,252	Total Gross Expenditure.
—	—	—	245,715,000	Balance.

‡ Road Improvement Grant.

§ Welsh Church Grant, £1,000,000 ; German Coal Advances, £5,499,620.

TABLE IV.

TAX REVENUE, 1915-16 TO 1928-29. REDUCED TO PRE-WAR VALUES ON THE BASIS OF THE COST OF LIVING INDEX FIGURE. (See note, page 369.)

[Exchequer Receipts, to nearest million.]

		1913-14.	1914-15.	1915-16.	1916-17.	1917-18.	1918-19.	1919-20.	1920-21.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.	1927-28.	1928-29.
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Customs and Excise	Actual -	75	81	121	127	110	162	283	334	324	280	268	234	238	240	251	253
	Pre-war value	—	—	93	82	60	77	130	131	156	156	154	134	137	140	151	153
Motor Vehicle Duties	Actual -	—	—	—	—	—	—	—	7	11	12	15	16	18	21	25	25
	Pre-war value	—	—	—	—	—	—	—	3	5	7	8	9	10	12	15	15
Inland Revenue exclud. E.P.D.	Actual -	88	108	169	247	283	337	426	472	491	480	435	438	426	398	418	406
	Pre-war value	—	—	131	159	155	159	195	185	236	268	250	251	246	231	252	245
E.P.D. - -	Actual -	—	—	—	140	220	285	290	219	30	2	—	1	2	5	—	1
	Pre-war value	—	—	—	90	120	135	133	86	15	1	—	—	1	3	—	1
Total Tax Revenue	Actual -	163	189	290	514	613	784	999	1032	857	775	718	690	685	664	693	685
	Pre-war value	—	—	224	330	335	371	458	405	412	432	413	394	394	386	418	414
Average cost of living index figure for financial year - - - -		—	Incomplete	129·4	155·7	182·8	211·4	218·2	254·8	207·8	179·3	173·9	175·1	173·8	172·0	165·8	165·5

TABLE V.

INCOME-TAX: RATES OF TAX, AND ABATEMENTS AND ALLOWANCES, 1913-14 TO 1919-20.

(From 64th Report of the Commissioners of Inland Revenue.)

Rates of Tax.

Total Income from all sources.		Reduced Rates of Tax Chargeable.											
		1913-14. (*Normal rate 1/2*).		1914-15. (*Normal rate 1/8*).		1915-16. (*Normal rate 3/-*).		1916-17 and 1917-18. (*Normal rate 5/-*).		1918-19 and 1919-20. (*Normal rate 6/-*).	
		On Earned Income.	On Unearned Income.	On Earned Income.	On Unearned Income.	On Earned Income.	On Unearned Income.	On Earned Income.	On Unearned Income.	On Earned Income.	On Unearned Income.
Exceeding	Not exceeding										
£	£	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*
130	160	—	—	—	—	1 $9\frac{3}{5}$	2 $4\frac{4}{5}$	2 3	3 0	2 3	3 0
160	300	0 9	Normal	1 0	1 4	1 $9\frac{3}{5}$	2 $4\frac{4}{5}$	2 3	3 0	2 3	3 0
300	500	0 9	„	1 0	1 $6\frac{2}{3}$	1 $9\frac{3}{5}$	2 $9\frac{3}{5}$	2 3	3 0	2 3	3 0
500	1,000	0 9	„	1 0	Normal	1 $9\frac{3}{5}$	Normal	2 6	3 6	3 0	3 9
1,000	1,500	0 9	„	1 2	„	2 $1\frac{4}{5}$	„	3 0	4 0	3 9	4 6
1,500	2,000	0 9	„	1 4	„	2 $4\frac{4}{5}$	„	3 8	4 6	4 6	5 3
2,000	2,500	1 0	„	1 $6\frac{2}{3}$	„	2 $9\frac{3}{5}$	„	4 4	Normal	5 3	Normal
2,500	3,000	1 0	„	Normal	„	Normal	„	Normal	„	Normal	„
3,000	—	Normal	„	„	„	„	„	„	„	„	„

Abatements and Allowances.

Total Income from all sources.		Abatements.		Allowances in respect of											
				Children.							Wife.*		Dependent Relatives.	Life Insurance Premiums.
									1919-20.		Nil to 1917-18.		Nil to 1917-18.	
		1913-14 and 1914-15.	1915-16 to 1919-20.	1913-14.	1914-15.	1915-16.	1916-17 and 1917-18.	1918-19.	For one child.	For each remaining child.	1918-19.	1919-20.	1918-19 and 1919-20.	1913-14 to 1919-20.
Exceeding	Not exceeding													
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
130	160	Exempt	120	—	—	25	25	25	40	25	25	50	25	Various, maximum one-sixth of Income.
160	400	160	120	10	20	25	25	25	40	25	25	50	25	
400	500	150	100	10	20	25	25	25	40	25	25	50	25	
500	600	120	100	—	—	—	25	25	40	25	25	50	25	
600	700	70	70	—	—	—	25	25	40	25	25	50	25	
700	800	—	—	—	—	—	—	25	40	25	25	50	25	
800	1,000	—	—	—	—	—	—	25†	40†	25	—	—	—	
1,000	—	—	—	—	—	—	—	—	—	—	—	—	—	

* Or housekeeper in certain cases. † After the first two.

TABLE VI.

INCOME-TAX: RATES OF TAXATION IN FORCE UNDER THE NEW SYSTEM FOR THE YEARS 1920-21 TO 1924-25.

(From the 68th Inland Revenue Report.)

Standard rate of Tax	1920-21 and 1921-22	6s. in the £.
	1922-23	5s. in the £.
	1923-24 and 1924-25	4s. 6d. in the £.

The following allowances, deductions and reliefs were granted to individuals whatever the total amount of the income:

Earned Income Allowance	One-tenth of the earned income, not exceeding £200 for any individual
Personal Allowance	Married persons, £225; Other persons, £135.
Increased Personal Allowance where Wife has earned income	Up to £45.
Widower's or Widow's Housekeeper taking care of children	1920-21 to 1923-24, £45.
Widower's or Widow's Housekeeper	1924-25, £60.
Unmarried person's widowed mother taking care of children	1920-21 to 1923-24, £45 1924-25, £60.
Children under 16 years of age, or over 16 if continuing full-time education	£36 for one child and £2 for each subsequent child
Certain Dependent Relatives incapacitated by old age or infirmity.	£25 for each such relative

Rates of Tax in the £ Chargeable on the Taxable Income.

	1920-21 and 1921-22.	1922-23.	1923-24 and 1924-25.
On the first £225	3s.	2s. 6d.	2s. 3d.
On the remainder	6s.	5s.	4s. 6d.

Allowance for Life Insurance Premiums	Tax calculated at defined rates on premiums, subject to various restrictions.
Dominion Income-Tax Relief	Tax calculated in accordance with statutory provisions.

* The expressions used in the new system introduced by the Finance Act of 1920 are thus defined:

Gross Income means the income brought under the review of the Department, before adjustments are made in respect of repairs to lands, houses, etc., empty property, wear and tear of machinery, overcharges in the assessments, etc. It includes certain income belonging to individuals whose total income is below the effective exemption limit of £135 assessable income.

Actual Income means the statutory income of the taxpayer, estimated in accordance with the provisions of the Income Tax Acts, after deduction of the income of individuals below the effective exemption limit and of the adjustments referred to under the definition of Gross Income.

Earned Income is defined fully in section 14 (3) of the Income Tax Act, 1918, and may be broadly described as income immediately derived by an individual from the carrying on or exercise by him of his trade, profession, vocation or employment.

Investment Income replaces the previous expression "Unearned Income," and means all income other than "Earned" income.

Assessable Income means the actual income less the earned income allowance.

Taxable Income means that part of the assessable income upon which Income-Tax is actually calculated. It is thus the assessable income less the personal allowances and deductions.

INCOME TAX: ACTUAL INCOME, ALLOWANCES, AND TAXABLE INCOME; NET PRODUCE OF THE TAX; THE EFFECTIVE RATE IN THE £; THE NORMAL RATE IN THE £; AND THE PRODUCE FOR EACH PENNY OF THE NORMAL RATE.

(Compiled for the 69th Statistical Abstract from the Annual Reports of the Inland Revenue Department.)

Years ended 5th April.	Actual Income.	Allowances from Actual Income.				Taxable Income (Actual Income *less* Allowances).	Net Produce of the Tax. *	Effective rate of Tax levied on each Pound of Actual Income.	Normal Rate in the £.	Produce for each Penny of the Normal Rate.	Years ended 5th April.
		Abatements.	Life Insurance Premiums.	Relief in respect of Children (and Wife, etc., from 1918-19.)	Total Allowances.						
	£	£	£	£	£	£	£	*d.*	*s. d.*	£	
1913-14	951,040,487	139,772,193	13,304,633	6,248,796	159,325,622	791,714,865	43,523,345	10·98	1 2	3,108,810	1913-14
1914-15	985,196,601	144,908,762	13,734,524	11,704,011	170,347,297	814,849,304	63,392,288	15·44	1 8	3,169,614	1914-15
1915-16	1,049,894,038	141,564,414	14,647,077	19,841,482	176,052,973	873,841,065	118,765,226	27·15	3 0	3,299,034	1915-16
1916-17	1,373,451,782	311,462,271	17,430,934	62,842,704	391,735,909	981,715,873	201,636,704	35·23	5 0	3,360,612	1916-17
1917-18	1,630,727,084	435,687,675	20,829,499	90,227,628	546,744,802	1,083,982,282	220,087,992	32·39	5 0	3,668,133	1917-18
1918-19	2,071,571,796	558,916,231	24,327,294	117,130,143 Wife, etc. 83,919,957	784,293,625	1,287,278,171	303,630,376	35·17	6 0	4,217,088	1918-19
1919-20	2,547,179,823	678,836,468	28,357,870	205,279,560 Wife, etc. 218,482,669	1,130,956,567	1,416,223,256	336,555,563	31·71	6 0	4,674,383	1919-20
		Earned Income Allowance.		Personal Allowance, etc.							
1920-21	2,661,182,503	156,504,148		1,148,050,491	1,304,554,639	1,356,627,864	353,219,573	31·85	6 0	4,905,827	1920-21

* The Net Produce represents the ultimate yield of the assessments made in any particular year.

The stages by which the "Taxable" income is arrived at from the "Actual" (or *Statutory*, income) may be seen in the above Table; but it may be added that "Actual" income is arrived at by deduction from "Gross" income, as exemplified in the following figures for 1920-21:

GROSS INCOME		£3,477,058,268
Exemption for Incomes		
Not exceeding the exemption limit	£81,633,395	
Charities and Hospitals, etc.	23,060,668	
Dominion and Foreign dividends belonging to persons not resident in the U.K.	3,675,230	
Reductions, Repairs (Lands or Houses)	46,955,187	
Empty Property	2,181,418	
Wear and Tear of Machinery or Plant	51,713,990	
Other Reductions and Discharges	606,655,877	
		815,875,765
ACTUAL INCOME		£2,661,182,503

TABLE VIII.

INCOME TAX: ESTIMATED NUMBER OF INDIVIDUALS WITH TOTAL INCOMES ABOVE THE EXEMPTION LIMIT.*

(From the 67th and 71st Inland Revenue Reports.)

Year.	Number of Individuals.		Total Number of Individuals.
	Entirely relieved from tax by the operation of abatements and allowances.	Chargeable with tax.	
UNITED KINGDOM.			
1913-14	70,000	1,130,000	1,200,000
1914-15	100,000	1,140,000	1,240,000
1915-16	120,000	1,360,000	1,480,000
1916-17	1,080,000	2,184,000	3,264,000
1917-18	1,520,000	2,956,000	4,476,000
1918-19	2,200,000	3,547,000	5,747,000
1919-20	3,900,000	3,900,000	7,800,000
1920-21	3,150,000	3,000,000	6,150,000
1921-22	2,900,000	2,600,000	5,500,000
1922-23	2,735,000	2,425,000	5,160,000
GT. BRITAIN AND N. IRELAND.			
1922-23	2,700,000	2,375,000	5,075,000
1923-24	2,350,000	2,450,000	4,800,000
1924-25	2,800,000	2,400,000	5,200,000
1925-26	2,400,000	2,200,000	4,600,000
1926-27	2,100,000	2,150,000	4,250,000
1927-28	2,400,000	2,250,000	4,650,000

* The effective exemption limit was, for the years 1916-17 to 1919-20 inclusive, £1 *actual* income, and for the remaining years, £135 *assessable* income.

TABLE IX.

SUPER-TAX: RATES.

(From the 68th Inland Revenue Report.)

| Year. | Incomes Chargeable. | Rates of Super-tax. | | |

TABLE X.

SUPER-TAX.

(*a*) NUMBERS AND INCOME ASSESSED, AND NET RECEIPTS, 1913-14 TO 1920-21.

(From the 67th Inland Revenue Report.)

Year.	Number of Persons charged.	Total Income (including the first portion of Income on which no Super-tax is payable), assessed by the Special Commissioners (*See* Note.)	Net Receipts within the year.
UNITED KINGDOM.		£	£
1913-14 (Incomes exceeding £5,000)	14,008	175,605,053	3,339,008
1914-15 (,, ,, £3,000)	30,211	244,769,134	10,121,023
1915-16 (,, ,, ,,)	29,465	233,362,086	16,787,654
1916-17 (,, ,, ,,)	31,985	261,939,179	19,140,411
1917-18 (,, ,, ,,)	35,564	301,310,733	23,278,704
1918-19 (,, ,, £2,500)	47,869	355,754,013	35,560,083
1919-20 (,, ,, ,,)	54 526	409,997,477	42,404,597
1920-21 (,, ,, £2,000)	78,850	516,000,000	55,668,985

(*b*) DISTRIBUTION OF INCOMES, LATEST OF ABOVE YEARS, 1920-21.

UNITED KINGDOM.*

Class.	Assessments made at 30th April, 1924	
	Year 1920-21.	
	Total Incomes Assessed.†	Number of Persons.
Exceeding £ — Not exceeding £	£	
2,000 - 2,500	33,223,525	14,476
2,500 - 3,000	35,095,304	12,821
3,000 - 4,000	54,191,385	15,682
4,000 - 5,000	40,954,270	9,176
5,000 - 6,000	32,087,274	5,869
6,000 - 7,000	25,804,904	3,985
7,000 - 8,000	21,409,984	2,858
8,000 - 10,000	34,390,236	3,859
10,000 - 15,000	56,771,013	4,704
15,000 - 20,000	34,068,912	1,968
20,000 - 25,000	22,021,097	983
25,000 - 30,000	17,199,475	628
30,000 - 40,000	22,530,632	656
40,000 - 50,000	16,972,474	376
50,000 - 75,000	21,176,325	356
75,000 - 100,000	12,050,521	140
100,000 - —	36,157,976	175
Total	516,105,307	78,712

* Great Britain and Ireland.

† Adjustments made under Section 6 of the Income Tax Act, 1918 (which provides fo the collection of a proportionate part only of the year's Super-tax in the case of a perso dying during the year of charge) have not been taken into account.

TABLE XI.

ESTATE DUTY RATES.

(From the 64th Inland Revenue Report.)

Small estates—where the gross value does not exceed £300—a fixed Duty of 30s. may be paid
Small estates—where the gross value exceeds £300 and does not exceed £500—a fixed Duty of 50s. may be paid
} Inclusive of all other Death Duties.

Estates not exceeding £100 net are exempt.

Where the Net Principal Value of the Estate		Rate of Duty per cent. when the Death occurred :—				
Exceeds	And does not Exceed	After 1st August, 1894, and before 19th April, 1907.*	After 18th April, 1907, and before 30th April, 1909.	After 29th April, 1909, and before 16th August, 1914.	After 15th August, 1914, and before 1st August, 1919.†	After 31st July 1919.†
£	£					
100	500	1	1	1	1	1
500	1,000	2	2	2	2	2
1,000	5,000	3	3	3	3	3
5,000	10,000	3	3	4	4	4
10,000	15,000	4	4	5	5	5
15,000	20,000	4	4	5	5	6
20,000	25,000	4	4	6	6	7
25,000	30,000	4½	4½	6	6	8
30,000	40,000	4½	4½	6	6	9
40,000	50,000	4½	4½	7	7	10
50,000	60,000	5	5	7	7	11
60,000	70,000	5	5	7	8	12
70,000	75,000	5	5	8	8	13
75,000	80,000	5½	5½	8	8	13
80,000	90,000	5½	5½	8	9	13
90,000	100,000	5½	5½	8	9	14
100,000	110,000	6	6	9	10	14
110,000	130,000	6	6	9	10	15
130,000	150,000	6	6	9	10	16
150,000	175,000	6½	7	10	11	17
175,000	200,000	6½	7	10	11	18
200,000	225,000	6½	7	11	12	19
225,000	250,000	6½	7	11	12	20
250,000	300,000	7	8	11	13	21
300,000	350,000	7	8	11	14	22
350,000	400,000	7	8	11	15	23
400,000	450,000	7	8	12	16	24
450,000	500,000	7	8	12	16	25
500,000	600,000	7½	9	12	17	26
600,000	750,000	7½	9	13	18	27
750,000	800,000	7½	10	13	18	27
800,000	1,000,000	7½	10	14	19	28
1,000,000	1,250,000	8	10 (On One Million.) 11 (On the Remainder.)	15	20	30
1,250,000	1,500,000	8	10 (On One Million.) 11 (On the Remainder.)	15	20	32
1,500,000	2,000,000	8	10 (On One Million.) 12 (On the Remainder.)	15	20	35
2,000,000	2,500,000	8	10 (On One Million.) 13 (On the Remainder.)	15	20	40
2,500,000	3,000,000	8	10 (On One Million.) 14 (On the Remainder.)	15	20	40
3,000,000	—	8	10 (On One Million.) 15 (On the Remainder.)	15	20	40

* Other rates of Estate Duty, viz. ½, 1½, 2½, and 3½ per cent. may also arise in the circumstances set out in section 12, sub-section 2, of the Finance Act, 1900.

† The amount of duty is, where necessary, to be reduced so as not to exceed the highest amount which would be payable at the next lower rate plus the amount by which the value of the estate exceeds the value on which the highest amount of duty would be so payable at the lower rate.

[This table is of interest as showing how the rates have been increased since Sir William Harcourt introduced the Estate Duty in 1894. They were further increased by Mr. Winston Churchill in 1925 between the ranges of £12,500 to £15,000 and £800,000 to £1,000,000, at some points rather considerably, but this does not fall within our present period.]

TABLE XII.

ESTATE DUTIES: CLASSIFICATION OF THE NUMBER OF ESTATES AND CAPITAL VALUE OF ESTATES OR PORTIONS OF ESTATES LIABLE TO ESTATE DUTY.

(Compiled for the 69th Statistical Abstract from the Annual Reports of the Inland Revenue Department.)

Class.	1913-14.	1914-15.	1915-16.	1916-17.	1917-18.	1918-19.	1919-20.	1920-21.
	I. NUMBER OF ESTATES.							
Small Estates { Not exceeding £300 gross value	21,818	21,858	23,944	24,521	24,446	27,236	29,923	26,468
Small Estates { Exceeding £300 but not exceeding £500 gross value.	10,806	11,007	11,836	12,491	12,386	14,345	15,792	14,653
Net— Exceeding £100 but not exceeding £500	6,199	6,347	6,477	6,598	6,117	6,661	} 24,691	23,624
„ 500 „ „ 1,000	11,857	12,302	12,858	13,720	13,453	14,561		
„ 1,000 „ „ 5,000	16,004	16,354	17,736	18,552	18,293	19,633	23,369	22,498
„ 5,000 „ „ 10,000	3,537	3,471	3,957	4,271	4,071	4,163	5,152	4,747
„ 10,000 „ „ 15,000	} 2,239	2,164	2,442	2,425	2,345	2,441	{ 2,026	1,818
„ 15,000 „ „ 20,000							{ 976	938
„ 20,000 „ „ 25,000	475	475	545	526	571	753	726	598
„ 25,000 „ „ 30,000	} 723	752	810	776	635	661	{ 389	357
„ 30,000 „ „ 40,000							{ 467	501
„ 40,000 „ „ 50,000	226	235	256	271	260	278	319	308
„ 50,000 „ „ 60,000	} 236	287	297	282	254	252	{ 190	173
„ 60,000 „ „ 70,000								
„ 70,000 „ „ 75,000	49	38	34	54	45	50	} 267	236
„ 75,000 „ „ 80,000	} 155	158	155	159	143	137	{	
„ 80,000 „ „ 100,000							{ 146	142
„ 100,000 „ „ 150,000	155	118	144	147	135	144	161	152
„ 150,000 „ „ 200,000	55	54	62	64	75	57	89	75
„ 200,000 „ „ 250,000	22	34	29	45	38	39	31	33
„ 250,000 „ „ 300,000	} 37	40	51	58	57	44	{ 25	14
„ 300,000 „ „ 400,000							{ 39	24
„ 400,000 „ „ 500,000	17	17	9	14	12	14	21	11
„ 500,000 „ „ 600,000	10	10	9	5	8	6	15	6
„ 600,000 „ „ 800,000	8	6	13	7	8	7	11	8
„ 800,000 „ „ 1,000,000	3	4	5	4	6	8	4	4
„ 1,000,000 „ „ 1,500,000	7	7	3	4	11	7	7	7
„ 1,500,000 „ „ 2,000,000	2	—	2	1	1	1	3	2
„ 2,000,000 „ „ 3,000,000	2	—	1	3	—	—	2	2
„ 3,000,000	—	1	1	—	—	1	—	—

	II. Capital Value of Estates (in thousand £).			
Small Estates { Not exceeding £300 gross value	4,180	4,189		5,144
Small Estates { Exceeding £300 but not exceeding £500 gross value.	4,318	4,380		5,732
Net—				
Exceeding £100 but not exceeding £500	2,705	2,855		} 17,415
,, 500 ,, ,, 1,000	9,943	10,380		
,, 1,000 ,, ,, 5,000	42,783	44,613		56,454
,, 5,000 ,, ,, 10,000	28,646	29,273		40,461
,, 10,000 ,, ,, 15,000	} 35,146	35,112		{ 29,163
,, 15,000 ,, ,, 20,000				{ 17,904
,, 20,000 ,, ,, 25,000	11,356	12,583		16,298
,, 25,000 ,, ,, 30,000	} 23,956	25,980		{ 11,958
,, 30,000 ,, ,, 40,000				{ 19,065
,, 40,000 ,, ,, 50,000	10,548	11,513		16,974
,, 50,000 ,, ,, 60,000	} 15,450	18,737		{ 10,474
,, 60,000 ,, ,, 70,000				{
,, 70,000 ,, ,, 75,000	3,686	2,878	Not available.	} 18,343
,, 75,000 ,, ,, 80,000	} 14,275	14,087		{
,, 80,000 ,, ,, 100,000				{ 12,861
,, 100,000 ,, ,, 150,000	18,614	17,497		25,823
,, 150,000 ,, ,, 200,000	8,964	10,005		13,272
,, 200,000 ,, ,, 250,000	5,067	7,120		8,399
,, 250,000 ,, ,, 300,000	} 13,761	14,233		{ 4,393
,, 300,000 ,, ,, 400,000				{ 12,224
,, 400,000 ,, ,, 500,000	7,115	6,648		5,397
,, 500,000 ,, ,, 600,000	3,396	5,446		4,070
,, 600,000 ,, ,, 800,000	5,382	7,251		3,370
,, 800,000 ,, ,, 1,000,000	5,275	4,093		4,244
,, 1,000,000 ,, ,, 1,500,000	7,641	5,649		15,414
,, 1,500,000 ,, ,, 2,000,000	322	1,827		5,160
,, 2,000,000 ,, ,, 3,000,000	6,870	– *2,063* *		8,651
,, 3,000,000	7,033	12,998		2,683
Total	296,432	307,284		391,346

* Capital transferred, in the year, to other classes exceeded that brought into this class.

TABLE XIII.

EXCESS PROFITS DUTY.

(From the Sixty-fourth Inland Revenue Report.)

The rates at which the duty has been imposed are shown in the following table :

On the amount by which the profits from any trade or business to which the law applies, in any accounting period which ended after 4th August, 1914, exceeded by more than £200, the pre-war standard of profits—

As respects excess profits arising—	Per Cent.
(*a*) Within a year from the commencement of the first accounting period	50
(*b*) After the end of the period mentioned in (*a*) but before 1st January, 1917	60
(*c*) During the calendar years 1917 and 1918 - - - - - - -	80
(*d*) During the calendar year 1919 - - - - - - - - -	40
(*e*) On and after 1st January, 1920, until the end of the final accounting period	60

Note as to (*a*) and (*b*).—In the case of trades or businesses commencing after 4th August, 1914, the rate is 50 per cent. if the accounting period ended on or before 4th August, 1915, and 60 per cent. if it ended thereafter.

General Note.—In the case of an accounting period which commenced before and ended after any of the times stated, the excess profits are apportioned on a time basis between the relative parts of the accounting period and the apportioned parts of the profits are charged at the several appropriate rates of duty.

BUDGET ESTIMATES, AMOUNTS PAID INTO THE EXCHEQUER, AND NET RECEIPT OF EXCESS PROFITS DUTY AND MUNITIONS LEVY.

Note.—Munitions Levy to the amount of about £10,000,000 was collected by the Minister of Munitions before the transfer of the administration of that Levy to the Commissioners of Inland Revenue. This sum is included in the figures below.

Year ended 31st March.	——	Budget Estimate of amount receivable by the Exchequer.	Amount paid into the Exchequer.	Net Receipt.			
				England.	Scotland.	Ireland.	United Kingdom.
1915-16	Excess Profits Duty -	£	£ 140,000	£ 187,846	£ —	£ —	£ 187,84
	Munitions Levy	—	—	—	—	—	—
	Total -	—	140,000	187,846	—	—	187,84
1916-17	Excess Profits Duty -	86,000,000	135,300,000	117,030,984	17,254,946	2,540,366	136,826,2
	Munitions Levy		4,620,000	4,788,636	—	—	4,788,6
	Total -	86,000,000	139,920,000	121,819,620	17,254,946	2,540,366	141,614,9
1917-18	Excess Profits Duty -	200,000,000	199,084,000	170,805,509	26,552,339	4,784,065	202,141,9
	Munitions Levy		21,130,000	16,894,169	4,050 008	30,000	20,974,1
	Total -	200,000,000	220,214,000	187,699,678	30,602,347	4,814,065	223,116,0
1918-19	Excess Profits Duty -	300,000,000	262,978,000	221,382,928	32,998,490	7,229,578	261,610,9
	Munitions Levy		22,050,000	19,825,116	2,286,085	254,664	22,365,8
	Total -	300,000,000	285,028,000	241,208,044	35,284,575	7,484,242	283,976,8
1919-20	Excess Profits Duty -	280,000 000	284,575,000	245,365,044	31,208,698	7,198,464	283,772,2
	Munitions Levy		5,470,000	4,961,612	469,018	5,210	5,435,8
	Total -	280,000,000	290,045,000	250,326,656	31,677,716	7,203,674	289,208,0
1920-21	Excess Profits Duty -	215,030,000	218,181,000	184,848,769	27,876,200	4,420,411	217,145,3
	Munitions Levy		1,000,000	899,374	54,374	—	953,7
	Total -	215,030,000	219,181,000	185,748,143	27,930,574	4,420,411	218,099,1

The number of assessments varied from 56,430 in 1916-17 to 75,409 in 1920-21 for E.P.D., and 2,717 in 1916-17 and 1917-18 to 59 in 1920-21 for Munitions Levy.

TABLE XIV.

CORPORATION PROFITS TAX.

(From the 71st Inland Revenue Report.)

The Corporation Profits Tax, which was imposed by the Finance Act, 1920, was repealed by the Finance Act, 1924. The rates at which the tax has been imposed, subject to certain abatements and reliefs, are as follows :

In respect of profits accruing

between 1st January, 1920, and 30th June, 1923 - - - 1s in the £

„ 1st July, 1923, „ „ 1924 - - - 6d. in the £.

The Budget Estimate, Exchequer Receipt, and Net Receipt since the imposition of the duty are as follows :

Year ended 31st March.	Budget Estimate.	Exchequer Receipt.	Net Receipt.			
			In England.	In Scotland.	In Ireland.	In the United Kingdom.
	£	£	£	£	£	£
1920-21	2,900,000	650,000	625,361	74,142	1,674	701,177
1921-22	30,000,000	17,516,000	15,185,496	2,211,736	307,163	17,704,395
					Northern Ireland.	Great Britain and Northern Ireland.
1922-23	19,750,000	18,977,000	16,732,586	1,908,305	173,679	18,814,570
1923-24	20,000,000	23,340,000	20,808,519	2,457,338	185,416	23,451,273
1924-25	20,000,000	18,100,000	15,966,657	1,904,132	134,313	18,005,102

This tax was repealed by the Finance Act of 1924 ; but assessments continued to be made in respect of profits arising prior to the 30th June, 1924, and there was a net receipt in 1925-26 of £11,704,657 ; in 1926-27 of £3,875,096 ; and in 1927-28 of £1,789,139.

TABLE XV.

DUTIES ON LAND VALUES: BUDGET ESTIMATES, AMOUNTS PAID INTO THE EXCHEQUER, AND NET RECEIPTS, IN EACH YEAR.—UNITED KINGDOM.

(From the 64th Inland Revenue Report.)

Year.	Budget Estimates.						Payments into Exchequer. Total Land Values.	Net Receipts. Total Land Values.
	Increment Value Duty.	Reversion Duty.	Undeveloped Land Duty.	Mineral Rights Duty.	Excess Mineral Rights Duty.	Total Land Values.		
	£	£	£	£	£	£	£	£
1910-11	20,000	90,000	280,000	700,000	—	1,090,000	520,000	509,025
1911-12	50,000	50,000	200,000	400,000	—	700,000	481,000	493,888
1912-13	30,000	125,000	100,000	290,000	—	545,000	455,000	436,722
1913-14	20,000	100,000	325,000	305,000	—	750,000	715,000	734,893
1914-15	55,000	130,000	230,000	310,000	—	725,000	412,000	413,961
1915-16	60,000	10,000	—	280,000	—	350,000	363,000	368,817
1916-17	100,000	10,000	—	290,000	75,000	475,000	521,000	524,138
1917-18	30,000	15,000	—	255,000	100,000	400,000	685,000	650,908
1918-19	110,000	25,000	—	270,000	295,000	700,000	664,000	709,867
1919-20	120,000	20,000	—	260,000	100,000	500,000	663,000	650,596
1920-21	—	—	—	250,000	250,000	500,000	20,000	*– 307,897*

TABLE XVI.

CUSTOMS AND EXCISE DUTIES, 1913-14 TO 1920-21

SUMMARY OF NET RECEIPTS.

Classified under the heads of:

(1) Liquor and Tobacco Duties;
(2) Breakfast Table Duties;
(3) Miscellaneous Pre-War Duties;
(4) New War Duties;
(5) Remaining Items of insufficient importance to be separately classified.

Heads of Revenue.	1913-14. Thousand £	1914-15. Thousand £	1915-16. Thousand £	1916-17. Thousand £	1917-18. Thousand £	1918-19. Thousand £	1919-20. Thousand £	1920-21. Thousand £
Spirits	23,976	25,275	26,839	18,015	10,596	24,242	58,804	71,048
Beer	13,655	15,882	33,770	31,573	19,109	25,424	71,278	123,406
Wine	1,152	1,004	1,078	888	781	1,409	2,235	2,913
Liquor Licences, etc.	4,517	4,326	3,521	3,505	2,429	1,273	1,498	3,922
Tobacco	18,284	19,302	25,781	27,372	33,320	46,292	60,871	55,532
Total Liquor and Tobacco	61,583	65,788	90,989	81,352	66,235	98,640	194,687	256,821
Sugar, etc.*	3,329	3,266	9,023	18,329	15,407	28,098	42,045	30,445
Tea	6,499	8,628	13,962	14,312	12,519	16,055	17,747	16,861
Cocoa	341	354	698	1,580	1,922	2,483	2,474	1,793
Coffee, Chicory, etc.	223	250	361	675	1,060	782	699	660
Fruits, Preserved, etc.	514	472	615	541	235	281	1,054	696
Total Breakfast Table Duties	10,905	12,970	24,660	35,438	31,143	47,698	64,019	50,454
Motor Spirit	841	964	1,793	1,976	1,699	2,222	3,000	2,559
Other Licences †	1,201	1,176	1,224	1,203	931	1,105	1,580	1,096
Railway Passengers	288	259	259	270	4	3	7	8
Patent Medicines	360	334	627	733	804	1,066	1,333	1,370
Total Miscellaneous Pre-War Duties	2,691	2,734	3,904	4,181	3,438	4,396	5,921	5,033
Table Waters and Cider	—	—	—	1,241	1,476	1,587	1,432	1,281
Matches and Mechanical Lighters	—	—	—	1,029	1,242	2,027	3,398	3,051
New Import Duties	—	—	1,042	906	773	1,084	3,362	5,481
Entertainments	—	—	—	3,001	4,988	7,520	10,480	11,736
Total New War Duties	—	—	1,042	6,178	8,480	12,218	18,671	21,548
Remaining Items	48	78	188	49	173	177	38	*—44*
Total Customs and Excise Net Receipts	75,227	81,570	120,783	127,198	109,467	163,129	283,336	333,813

* "Sugar, etc.," includes small sums from war duty on home-grown sugar.

† "Other Licences" include Receipts from the Motor Spirit Licence Duty, imposed in 1916, which may be regarded as an extension of the pre-war duty on Motor Spirit, and relatively unimportant receipts from other licence duties imposed during the war. Motor vehicle licence duties were included under this head until 1st January, 1921, from which date they were paid to the Ministry of Transport.

TABLE XVII.

WAR LOANS TO DOMINIONS AND ALLIES AND LOANS FOR RELIEF IN WAR AREAS OUTSTANDING ON 31ST MARCH, 1915 TO 1921.

(Adapted from the 69th Statistical Abstract.)

Country.	Amount outstanding on 31st March.						
	1915.	1916.	1917.	1918.	1919.	1920.	1921.
(I) *Loans to Dominions and Colonies.*	£	£	£	£	£	£	£
Australia	6,315,789	29,774,269	49,082,059	48,582,059	49,082,059	51,582,059	96,414,349
Canada	12,631,579	28,354,599	59,503,501	103,003,501	* 72,407,969	* 19,359,730	* 13,809,730
New Zealand	5,842,105	11,262,562	18,193,073	23,023,073	29,623,073	29,623,073	29,623,073
South Africa	11,678,947	17,902,456	17,739,568	16,749,568	16,630,238	15,770,215	13,416,259
Newfoundland	105,263	302,871	—	300,000	400,000	400,000	400,000
British Guiana	144,211	139,549	145,375	145,375	144,210	144,210	144,210
Fiji	—	202,020	212,651	212,651	212,651	212,651	212,651
Jamaica	76,052	63,408	66,055	66,055	66,055	66,055	66,055
Trinidad	484,211	468,559	488,121	488,121	488,121	488,121	488,121
British South Africa Company	—	201,010	735,799	1,185,799	1,835,799	1,950,799	1,950,799
East Africa Protectorate	244,211	108,991	113,541	—	—	—	—
Nyasaland	26,316	113,253	451,525	635,821	—	—	—
Uganda	—	45,202	47,055	47,055	—	—	—
Federated Malay States	1,983,158	2,222,086	—	—	—	—	—
Total Loans to Dominions and Colonies, etc.	39,531,842	91,160,835	146,778,323	194,439,078	170,890,175	119,596,913	156,525,247
(II) *Loans to Allied Governments.*†							
France	—	20,254,579	191,267,000	372,983,483	434,490,000	514,840,000	557,039,507
Russia	—	174,222,000	400,635,397	571,184,662	567,983,049	567,983,396	561,402,235
Italy	—	49,520,000	157,040,000	282,810,000	412,520,000	457,370,000	476,850,000
Belgium	11,982,554	28,834,259	49,925,045	66,631,311	86,779,390	99,106,006	103,421,192
Serb-Croat-Slovene Kingdom, including Montenegro	2,187,787	7,305,416	12,129,122	16,637,162	18,833,983	21,132,214	22,452,133
Roumania	—	7,250,000	12,500,000	15,100,000	16,040,000	20,280,000	21,393,662
Portugal	—	—	2,000,000	2,855,000	12,592,000	18,645,000	18,575,000
Greece	—	1,094,766	1,461,478	4,972,674	18,565,263	21,655,172	22,577,979
Total Loans to Allied Governments	14,170,341	288,481,020	826,958,042	1,333,174,292	1,567,803,685	1,721,011,788	1,783,711,708

Country.	Amount outstanding on 31st March.						
	1915.	1916.	1917.	1918.	1919.	1920.	1921.
(III) *Loans for Relief.*							
Austria	—	—	—	—	—	3,794,375	8,605,134
Roumania	—	—	—	—	—	1,606,571	1,294,726
Serb-Croat-Slovene Kingdom	—	—	—	—	—	1,257,950	1,839,167
Poland	—	—	—	—	—	942,093	4,137,041
Czecho-Slovakia	—	—	—	—	—	237,116	417,392
Esthonia	—	—	—	—	—	200,000	241,681
Lithuania	—	—	—	—	—	16,812	16,812
Latvia	—	—	—	—	—	13,422	20,169
Hungary	—	—	—	—	—	—	79,998
Armenia	—	—	—	—	—	—	77,614
Inter-Allied Commission on the Danube	—	—	—	—	—	5,929	6,869
Total Loans for Relief	—	—	—	—	—	8,074,268	16,736,603
(IV) *Loans for Reconstruction.*							
Belgian Congo	—	—	927,035	2,250,584	2,450,300	3,550,300	3,550,300
Total Loans for Reconstruction	—	—	927,035	2,250,584	2,450,300	3,550,300	3,550,300
Other Loans : (V) *Stores, etc.*							
Czecho-Slovakia	—	—	—	—	—	—	2,000,000
Armenia	—	—	—	—	—	—	829,635
Total Stores, etc.	—	—	—	—	—	—	2,829,635
TOTAL	53,702,183	379,641,855	974,663,400	1,529,863,954	1,741,144,160	1,852,233,269	1,963,353,493

NOTES.—In addition to above there were considerable sums owing to British Government Departments on current account.

*Against this should be set advances made to the Imperial Government by the Dominion Government to meet expenditure in Canada.

†Some of these amounts include unpaid interest.

TABLE XVIII.

ESTIMATED POPULATION OF EACH DIVISION OF THE UNITED KINGDOM AS AT THE MIDDLE OF EACH YEAR FROM 1912 TO 1926.

(Compiled from the Annual Reports of the Registrars-General for each Division of the United Kingdom.)

	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.	1920.	1921.†
England and Wales:	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.
Males	17,571	17,687	17,885	16,003	15,222	14,661	14,433	15,868	17,582	18,075
Females	18,756	18,887	19,082	19,281	19,420	19,536	19,591	19,559	19,665	19,811
Persons	36,327	36,574	36,967	35,284 (*)	34,642 (*)	34,197 (*)	34,024 (*)	35,427 (*)	37,247 (*)	37,887
Scotland:										
Males	2,301	2,296	2,307	2,313	2,319	2,320	2,308	2,314	2,337	2,348
Females	2,440	2,432	2,440	2,458	2,476	2,490	2,504	2,506	2,527	2,535
Persons	4,741	4,728	4,747	4,771	4,795	4,810	4,812	4,820	4,864	4,882
Ireland:										
Males	2,182	2,170	2,166	2,111	2,108	2,113	2,119	2,203	2,210	2,209
Females	2,186	2,176	2,168	2,167	2,165	2,160	2,161	2,149	2,151	2,145
Persons	4,368	4,346	4,334	4,278	4,273	4,273	4,280	4,352	4,361	4,354
United Kingdom:										
Males	22,054	22,153	22,358	20,427	19,649	19,094	18,860	20,385	22,129	22,632
Females	23,382	23,495	23,690	23,906	24,061	24,186	24,256	24,214	24,343	24,491
Persons	45,436	45,648	46,048	44,333	43,710	43,280	43,116	44,599	46,472	47,123

* For the years 1915-20 the estimates relate to the civil population only.

† A Census of Ireland was not taken in 1921.

TABLE XIX.

NATIONAL DEBT: TABLE SHOWING THE CHANGES IN THE NATIONAL DEBT FROM 1ST APRIL, 1914, TO 31ST MARCH, 1921.

(Adapted from Colwyn Report Appendices, pp. 14-17.)

£ thousands throughout.

—	Debt on 1st April, 1914.	1914-15.		1915-16.		1916-17.		1917-18.		1918-19.		1919-20.		1920-21.		Debt outstanding on 31st March, 1921.	—
		Debt created (1) for cash (2) by conversions.	Debt redeemed (1) by cash (2) by conversions.	Debt created (1) for cash (2) by conversions.	Debt redeemed (1) by cash (2) by conversions.	Debt created (1) for cash (2) by conversions.	Debt redeemed (1) by cash (2) by conversions.	Debt created (1) for cash (2) by conversions.	Debt redeemed (1) by cash (2) by conversions.	Debt created (1) for cash (2) by conversions.	Debt redeemed (1) by cash (2) by conversions.	Debt created (1) for cash (2) by conversions.	Debt redeemed (1) by cash (2) by conversions.	Debt created (1) for cash (2) by conversions	Debt redeemed (1) by cash (2) by conversions.		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Pre-war Funded Debt	586,718	—	3,428	—	394	—	636	—	57	—	102	—	2,676	—	115	314,837	Pre-war Funded Debt.
	—	—	—	—	*264,436*	—	*37*	—	—	—	—	—	—	—	—		
Terminable Annuities	20,552	—	1,511	—	1,882	—	2,114	—	2,141	—	1,258	—	1,332	—	1,616	17,698	Terminable Annuities.
Exchequer Bonds	20,500	50,000	3,105	155,371	45,735	340,502	1,289	97,914	12,069	—	5,091	67,215	109,166	—	29,012	289,565	Exchequer Bonds.
	—	—	—	—	—	*77,062*	*272,988*	—	*14,427*	—	*2,987*	*99,532*	*122,663*	*1*	—		
3½% War Loan, 1925-28	—	350,000	909	—	148,848	—	27	—	1	—	—	—	—	—	—	62,745	3½% War Loan, 1925-28.
	—	—	—	—	*137,469*	—	*1*	—	—	—	—	—	—	—	—		
4½% War Loan, 1925-45	—	—	—	587,196	834	—	[illegible]	—	—	—	—	—	—	—	—	12,805	4½% War Loan, 1925-45.
	—	—	—	*313,[illegible]*	—	*26*	*379,566*	—	*3,851*	—	*1,791*	—	*1,543*	—	—		
5% War Loan, 1929-47	—	—	—	—	—	966,659	230	8,348	37,639	—	28,082	—	38,795	—	48,145	1,928,734	5% War Loan, 1929-47.
	—	—	—	—	—	*1,100,560*	—	*247*	—	*1,599*	—	*4,128*	—	*84*	—		
4% (tax-compounded) War Loan, 1929-42.	—	—	—	—	—	22,658	—	—	46	—	43	—	22	—	330	67,025	4% (tax-compounded) War Loan, 1929-42.
	—	—	—	—	—	*29,760*	—	—	—	*3,969*	—	*7,866*	—	*3,213*	—		
5% National War Bonds	—	—	—	—	—	—	—	521,008	8,674	963,025	55,164	41,347	57,125	—	51,533	1,249,766	5% National War Bonds.
	—	—	—	—	—	—	—	*17,536*	—	*4,725*	*1,520*	*259*	*130,777*	*6,738*	*79*		
4% (tax-compounded) National War Bonds.	—	—	—	—	—	—	—	119,686	1,284	82,774	3,167	3,216	3,699	—	14,991	163,001	4% (tax-compounded) National War Bonds.
	—	—	—	—	—	—	—	*1,138*	—	*90*	*3,969*	*5*	*13,585*	—	*3,213*		
4% Funding Loan, 1960-90	—	—	—	—	—	—	—	—	—	—	—	288,967	178	—	2,910	406,023	4% Funding Loan, 1960-90.
	—	—	—	—	—	—	—	—	—	—	—	*120,144*	—	—	—		
4% Victory Bonds	—	—	—	—	—	—	—	—	—	—	—	287,919	—	—	1,797	357,735	4% Victory Bonds.
	—	—	—	—	—	—	—	—	—	—	—	*71,613*	—	—	—		
War Expenditure Certificates	—	—	—	—	—	29,879	—	—	—	—	22,891	—	—	—	—	—	War Expenditure Certificates.
	—	—	—	—	—	—	*6,318*	—	*632*	—	*38*	—	—	—	—		
War Savings Certificates	—	—	—	1,3[illegible]7	—	73,100	—	63,263	—	89,222	—	71,519	24,950	41,196	29,741	284,998	National Savings Certificates.
Treasury Bonds	—	—	—	—	—	—	—	—	—	—	—	—	—	23,143	—	23,143	Treasury Bonds.
Other debt (sterling)	—	—	—	—	—	710	—	402	—	83	3	1,371	295	382	57	2,593	Other debt (sterling).
Treasury Bills (net)	13,0[illegible]	64,150	—	489,676	—	—	103,121	509,739	—	—	16,208	101,460	—	29,996	—	1,088,692	Treasury Bills (net).
Ways and Means Advances (net)	—	—	—	19,896	—	197,630	—	—	25,255	262,721	—	—	250,105	—	50,398	154,489	Ways and Means Advances (net).
Floating Debt (net)	13,000	64,150	—	509,572	—	94,509	—	484,484	—	246,513	—	—	148,645	—	20,402	1,283,985	Floating Debt (net).
Total Internal Debt (including Floating Debt (net)).	649,770	464,150	8,953	1,567,161	599,598	2,735,425	1,163,673	1,314,026	80,821	1,392,000	126,106	1,065,101	655,451	74,757	203,941	6,423,847	Total Internal Debt (including Floating Debt (net)).
External Debt (cash)	—	—	—	60,617	—	327,726	21,179	708,693	81,494	509,920	129,426	242,940	255,795	40,057	145,138	—	External Debt (cash.)
(conversions)	—	—	—	—	—	—	—	*207*	*207*	*29,297*	*29,297*	—	—	—	*5,953*	—	(conversions).
(set-offs, etc.)	—	—	—	—	—	—	—	—	—	—	83,289	—	—	—	6,116	—	(set-offs, etc.)
Total	—	—	—	60,617	—	327,726	21,179	708,900	81,701	539,217	242,012	242,940	255,795	40,057	157,207	1,161,563	Total.
Total Debt:																	Total Debt:
Created or redeemed for cash	—	464,150	8,953	1,314,143	197,693	1,855,743	25,942	2,003,798	143,405	1,891,537	245,227	1,004,494	642,678	104,778	345,787	—	Created or redeemed for cash.
Conversions	—	—	—	*313,635*	*401,905*	*1,207,408*	*1,158,910*	*19,128*	*19,117*	*39,680*	*39,692*	*303,547*	*268,568*	*10,036*	*9,245*	—	Conversions.
Other transactions	—	—	—	—	—	—	—	—	—	—	83,289	—	—	—	6,116	—	Other transactions.
TOTAL	649,770	464,150	8,953	1,627,778	599,598	3,063,151	1,184,852	2,022,926	162,522	1,931,217	368,118	1,308,041	911,246	114,814	361,148	7,585,410	TOTAL.
Total Debt at 31st March		1,104,967		2,133,147		4,011,446		5,871,850		7,434,949		7,831,744		7,585,410			

TABLE XX.

INDIRECT *v.* DIRECT TAXES.

PROPORTION OF REVENUE CONTRIBUTED BY INDIRECT AND DIRECT TAXES RESPECTIVELY AND THE AMOUNT OF TAXATION PER HEAD OF POPULATION FROM 1874-5 TO 1920-21 (INCLUDING REVENUE ASSIGNED FOR LOCAL PURPOSES FROM 1889-90 TO 1906-7).

Year.	Indirect Taxes.						Direct Taxes.						Total of Indirect and Direct Taxes.	Population Estimated to Middle of Calendar Year.	Amount of Tax Revenue per Head of Population.
	Sumptuary.*		Other.		Total.		Ordinary.		Excess Profits.		Total.				
	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.			
	£		£		£		£		£		£		£		£ s. d.
1874-5	37,977,000	60·1	4,489,000	7·1	42,466,000	67·2	20,714,000	32·8	—	—	20,714,000	32·8	63,180,000	32,502,000	1 18 11
1875-6	38,959,000	60·4	4,550,000	7·0	43,509,000	67·4	21,036,000	32·6	—	—	21,036,000	32·6	64,545,000	32,839,000	1 19 4
1876-7	38,689,000	59·1	4,608,000	7·0	43,297,000	66·1	22,212,000	33·9	—	—	22,212,000	33·9	65,509,000	33,200,000	1 19 6
1877-8	38,563,000	58·0	4,862,000	7·3	43,425,000	65·3	23,119,000	34·7	—	—	23,119,000	34·7	66,544,000	33,576,000	1 19 7
1878-9	38,097,000	55·3	5,087,000	7·3	43,134,000	62·6	25,736,000	37·4	—	—	25,736,000	37·4	68,870,000	33,944,000	2 0 7
1879-80	35,636,000	53·4	4,529,000	6·8	40,165,000	60·2	26,499,000	39·8	—	—	26,499,000	39·8	66,664,000	34,303,000	1 18 10
1880-1	35,539,000	51·4	4,728,000	6·8	40,267,000	58·2	28,904,000	41·8	—	—	28,904,000	41·8	69,171,000	34,623,000	1 19 11
1881-2	37,232,000	52·7	4,844,000	6·8	42,076,000	59·5	28,598,000	40·5	—	—	28,598,000	40·5	70,674,000	34,935,000	2 0 5
1882-3	37,169,000	50·7	5,133,000	7·0	42,302,000	57·7	31,065,000	42·3	—	—	31,065,000	42·3	73,367,000	35,207,000	2 1 8
1883-4	37,192,000	51·7	5,179,000	7·2	42,371,000	58·9	29,605,000	41·1	—	—	29,605,000	41·1	71,976,000	35,450,000	2 0 7
1884-5	37,366,000	50·6	5,732,000	7·8	43,098,000	58·4	30,672,000	41·6	—	—	30,672,000	41·6	73,770,000	35,724,000	2 1 4
1885-6	36,201,000	48·3	5,070,000	6·8	41,271,000	55·1	33,630,000	44·9	—	—	33,630,000	44·9	74,901,000	36,016,000	2 1 7
1886-7	36,073,000	47·3	5,420,000	7·1	41,493,000	54·4	34,768,000	45·6	—	—	34,768,000	45·6	76,261,000	36,314,000	2 2 0
1887-8	35,773,000	47·4	5,550,000	7·3	41,323,000	54·7	34,169,000	45·3	—	—	34,169,000	45·3	75,492,000	36,599,000	2 1 3
1888-9	36,027,000	48·4	5,601,000	7·5	41,628,000	55·9	32,901,000	44·1	—	—	32,901,000	44·1	74,529,000	36,881,000	2 0 5
1889-90	38,328,000	48·7	5,411,000	6·9	43,739,000	55·6	34,963,000	44·4	—	—	34,963,000	44·4	78,702,000	37,179,000	2 2 4
1890-1	40,819,000	50·8	4,130,000	5·1	44,949,000	55·9	35,438,000	44·1	—	—	35,438,000	44·1	80,387,000	37,485,000	2 2 11
1891-2	42,227,000	50·7	4,156,000	5·0	46,383,000	55·7	36,824,000	44·3	—	—	36,824,000	44·3	83,207,000	37,807,000	2 4 0
1892-3	41,585,000	50·9	4,130,000	5·0	45,715,000	55·9	36,041,000	44·1	—	—	36,041,000	44·1	81,756,000	38,134,000	2 2 11
1893-4	41,560,000	50·2	4,230,000	5·1	45,790,000	55·3	36,944,000	44·7	—	—	36,944,000	44·7	82,734,000	38,490,000	2 3 0
1894-5	42,461,000	49·5	4,376,000	5·1	46,837,000	54·6	38,871,000	45·4	—	—	38,871,000	45·4	85,708,000	38,859,000	2 4 1
1895-6	43,950,000	47·5	4,532,000	4·9	48,482,000	52·4	43,997,000	47·6	—	—	43,997,000	47·6	92,479,000	39,221,000	2 7 2
1896-7	44,994,000	47·7	4,625,000	4·9	49,619,000	52·6	44,670,000	47·4	—	—	44,670,000	47·4	94,289,000	39,599,000	2 7 8
1897-8	46,330,000	47·3	4,723,000	4·8	51,053,000	52·1	46,934,000	47·9	—	—	46,934,000	47·9	97,987,000	39,987,000	2 9 0
1898-9	46,905,000	46·9	4,920,000	4·9	51,825,000	51·8	48,217,000	48·2	—	—	48,217,000	48·2	100,042,000	40,381,000	2 9 7
1899-1900	50,416,000	46·5	5,518,000	5·1	55,934,000	51·6	52,562,000	48·4	—	—	52,562,000	48·4	108,496,000	40,774,000	2 13 3
1900-1	53,402,000	44·8	7,160,000	6·0	60,562,000	50·6	59,104,000	49·4	—	—	59,104,000	49·4	119,666,000	41,155,000	2 18 2
1901-2	49,040,000	37·4	13,186,000	10·1	†62,226,000	47·5	68,742,000	52·5	—	—	68,742,000	52·5	†130,968,000	41,538,000	3 3 1
1902-3	51,094,000	37·6	13,827,000	10·0	†65,521,000	47·6	72,015,000	52·4	—	—	72,015,000	52·4	†137,536,000	41,892,000	3 5 8
1903-4	50,798,000	40·1	13,497,000	10·6	†64,295,000	50·7	62,502,000	49·3	—	—	62,502,000	49·3	†126,797,000	42,246,000	3 0 0
1904-5	49,626,000	38·5	15,459,000	12·0	†65,085,000	50·5	63,790,000	49·5	—	—	63,790,000	49·5	†128,875,000	42,611,000	3 0 6
1905-6	49,223,000	38·6	14,104,000	11·1	†63,327,000	49·7	64,120,000	50·3	—	—	64,120,000	50·3	†127,447,000	42,980,000	2 19 4
1906-7	49,593,000	38·6	12,929,000	10·0	†62,522,000	48·6	66,208,000	51·4	—	—	66,208,000	51·4	†128,730,000	43,361,000	2 19 5
1907-8	49,902,000	38·4	13,647,000	10·5	63,549,000	48·9	66,307,000	51·1	—	—	66,307,000	51·1	129,856,000	43,737,000	2 19 5
1908-9	49,082,000	39·2	10,307,000	8·2	59,389,000	47·4	65,957,000	52·6	—	—	65,957,000	52·6	125,346,000	44,123,000	2 16 10
1909-10	47,222,000	36·1	10,421,000	7·5	57,643,000	43·6	46,702,000	56·4	—	—	46,702,000	56·4	104,345,000	44,519,000	3 2 11
1910-11	54,257,000		10,820,000		65,077,000		111,937,000				111,937,000		177,014,000	44,915,000	
1911-12	54,523,000	35·3	11,369,000	7·4	65,892,000	42·7	88,386,000	57·3	—	—	88,386,000	57·3	154,278,000	45,324,000	3 8 1
1912-13	54,214,000	35·0	11,428,000	7·4	65,642,000	42·4	89,213,000	57·6	—	—	89,213,000	57·6	154,855,000	45,508,000	3 8 1
1913-14	57,066,000	35·0	12,155,000	7·5	69,221,000	42·5	93,814,000	57·5	—	—	93,814,000	57·5	163,035,000	45,713,000	3 11 4
1914-15	61,461,000	32·3	14,347,000	7·6	75,808,000	39·9	114,246,000	60·1	—	—	114,246,000	60·1	190,054,000	‡	
1915-16	87,651,000	30·1	28,127,000	9·7	115,778,000	39·8	174,907,000	60·1	188,000	0.1	175,095,000	60·2	290,873,000	‡	
1916-17	81,017,000	15·7	41,306,000	8·0	122,323,000	23·7	252,574,000	48·9	141,615,000	27·4	394,189,000	76·3	516,512,000	‡	
1917-18	68,940,000	11·2	37,290,000	6·1	106,230,000	17·3	284,938,000	46·4	223,116,000	36·3	508,054,000	82·7	614,284,000	‡	
1918-19	105,056,000	13·4	55,824,000	7·1	160,880,000	20·5	341,945,000	43·5	283,977,000	36·0	625,922,000	79·5	786,802,000	‡	
1919-20	203,876,000	20·4	76,388,000	7·6	280,264,000	28·0	431,414,000	43·1	289,208,000	28·9	720,622,000	72·0	1,000,886,000	46,082,000	21 14 4
1920-21	264,835,000	25·6	63,984,000	6·2	328,819,000	31·8	485,824,000	47·1	218,099,000	21·1	703,923,000	68·2	1,032,742,000	46,873,000	22 0 8

* Alcohol, Tobacco, Entertainments and Cinema Films. † Excluding Coal Duty. ‡ Owing to the War, no reliable figures of population are available from 1914-15 to 1918-19.

NOTE.—Indirect Taxes represent all Taxes which are levied in respect of consumable articles. They include all Customs Duties (excepting Coal Duty from 1901-2 to 1906-7), and all Excise Duties, excepting Licences and Railway Duty (and in 1874-5 Racehorse Duty).

Direct Taxes represent all other Taxes. They include Excise Licences and Railway Duty (and in 1874-5 Racehorse Duty), Death Duties, Stamps, Land Tax, House Duty, Property and Income Tax, and (from 1910-11) Land Value Duties.

This distinction does not, of course, attempt to denote the real incidence of Taxation.

TABLE XXI.

THE TOTAL BURDEN OF TAXATION.

This Table, with this Prefatory Note, is taken from the Report of the Committee on National Debt and Taxation (the "Colwyn Report"), pp. 93-95. It need only be added that in this Table the Death Duties have been translated into terms of an annual charge by treating them as equivalent to an annual Life Insurance Premium (see paras. 228-237 and para. 459 of the Report).

"It will be borne in mind that the figures other than those for the Income Tax are in various degrees speculative, and have no official authority. In particular, the figures for the following duties attempt to illustrate rather than to measure liability:

Death Duties. Duty on Tobacco. Duty on Alcoholic Drinks. Entertainments Duty.

"*In regard to these duties it may be observed that the individual can, if he chooses, ignore the prospective burden of the death duties; if he is a non-smoker and non-drinker, he escapes the duties on tobacco and alcohol; again the burden of the Entertainments Duty depends on voluntary expenditure.* All these duties then differ from the Income Tax and Super-tax, which are inevitable burdens on incomes above certain limits, and from the duties on tea, sugar, etc., which may also be regarded as inevitable burdens, since they fall on commodities almost universally consumed."

GENERAL TABLE RELATING DIRECT AND INDIRECT TAXATION TO SPECIMEN INCOMES.

N.B.—The Taxpayer is assumed to be married and to have 3 children under the age of 16.

Income.	Income Tax and Super-tax.		Death Duties.	Inhabited House Duty.	Total Direct Taxes.		Tea.	Sugar.	Tobacco.	Alcoholic Drinks.	Enter-tain-ments.	Cocoa, Coffee and Chicory, Dried Fruits, Patent Medicines and Table Waters.	Total Indirect Taxes.	Total Taxation.		Total Taxation: Percentage of Income.					
	Income wholly earned.	Income half earned half investment.	Income half earned half investment.		Income wholly earned.	Income half earned half investment.								Income wholly earned.	Income half earned half investment.	Income wholly earned.			Income half earned half investment.		
																Direct.	Indirect.	Total.	Direct.	Indirect.	Total.
1903-04	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	%	%	%	%	%	%
50	—	—	0 8 0	—	—	0 8 0	0 13 0	0 12 0	0 16 0	2 5 0	—	0 1 0	4 7 0	4 7 0	4 15 0	—	8·7	8·7	0·8	8·7	9·5
100	—	—	1 5 0	—	—	1 5 0	0 14 3	0 14 0	1 2 0	3 0 0	—	0 2 0	5 12 3	5 12 3	6 17 3	—	5·6	5·6	1·2	5·6	6·8
150	—	—	1 18 0	0 4 6	0 4 6	2 2 6	0 15 0	0 14 6	1 6 0	3 10 0	—	0 3 0	6 8 6	6 13 0	8 11 0	0·2	4·3	4·5	1·4	4·3	5·7
200	1 16 8	1 16 8	2 9 0	0 7 6	2 4 2	4 13 2	0 15 0	0 15 0	1 8 0	4 5 0	—	0 4 0	7 7 0	9 11 2	12 0 2	1·1	3·7	4·8	2·3	3·7	6·0
500	16 0 10	16 0 10	6 1 0	1 5 0	17 5 10	23 6 10	0 15 0	0 15 0	1 18 0	5 5 0	—	0 4 0	8 17 0	26 2 10	32 3 10	3·5	1·8	5·3	4·7	1·8	6·5
1,000	45 16 8	45 16 8	16 6 0	3 0 0	48 16 8	65 2 8	0 15 0	0 15 0	2 1 0	8 0 0	—	0 4 0	11 15 0	60 11 8	76 17 8	4·9	1·2	6·1	6·6	1·2	7·8
2,000	91 13 4	91 13 4	32 14 0	4 15 0	96 8 4	129 2 4	0 15 0	0 15 0	2 9 0	14 10 0	—	0 4 0	18 13 0	115 1 4	147 15 4	4·8	0·9	5·7	6·5	0·9	7·4
5,000	229 3 4	229 3 4	103 11 0	9 0 0	238 3 4	341 14 4	0 15 0	0 15 0	2 16 0	29 0 0	—	0 4 0	33 10 0	271 13 4	375 4 4	4·8	0·7	5·5	6·8	0·7	7·5
10,000	458 6 8	458 6 8	251 17 0	15 0 0	473 6 8	725 3 8	0 15 0	0 15 0	2 16 0	29 0 0	—	0 4 0	33 10 0	506 16 8	758 13 8	4·7	0·3	5·0	7·3	0·3	7·6
20,000	916 13 4	916 13 4	549 9 0	28 0 0	944 13 4	1,494 2 4	0 15 0	0 15 0	2 16 0	29 0 0	—	0 4 0	33 10 0	978 3 4	1,527 12 4	4·7	0·2	4·9	7·5	0 2	7·7
50,000	2,291 13 4	2,291 13 4	1,607 5 0	55 0 0	2,346 13 4	3,953 18 4	0 15 0	0 15 0	2 16 0	29 0 0	—	0 4 0	33 10 0	2,380 3 4	3,987 8 4	4·7	0·1	4·8	7·9	0·1	8·0
1913-14																					
50	—	—	0 8 0	—	—	0 8 0	0 12 3	0 6 2	1 1 0	2 0 0	—	0 1 0	4 0 5	4 0 5	4 8 5	—	8·0	8·0	0·8	8·0	8·8
100	—	—	1 5 0	—	—	1 5 0	0 13 4	0 7 2	1 10 0	2 15 0	—	0 2 0	5 7 6	5 7 6	6 12 6	—	5·4	5·4	1·2	5·4	6·6
150	—	—	1 13 0	0 4 6	0 4 6	2 2 6	0 14 2	0 7 6	1 15 0	3 5 0	—	0 3 0	6 4 8	6 9 2	8 7 2	0·2	4·2	4·4	1·4	4·2	5·6
200	0 7 6	0 11 8	2 8 0	0 7 6	0 15 0	3 7 2	0 14 2	0 7 8	1 17 0	4 0 0	—	0 4 0	7 2 10	7 17 10	10 10 0	0·4	3·6	4·0	1·7	3·6	5·3
500	12 0 0	17 4 2	8 3 0	1 5 0	13 5 0	26 12 2	0 14 2	0 7 8	2 10 0	5 0 0	—	0 4 0	8 15 10	22 0 10	35 8 0	2·6	1·8	4·4	5·3	1·8	7·1
1,000	37 10 0	47 18 4	20 10 0	3 0 0	40 10 0	71 8 4	0 14 2	0 7 8	2 15 0	7 10 0	—	0 4 0	11 10 10	52 0 10	82 19 2	4·0	1·2	5·2	7·1	1·2	8·3
2,000	75 0 0	95 16 8	49 19 0	4 15 0	79 15 0	150 10 8	0 14 2	0 7 8	3 5 0	13 10 0	—	0 4 0	18 0 10	97 15 10	168 11 6	4·0	0·9	4·9	7·5	0·9	8·4
5,000	291 13 4	291 13 4	144 10 0	9 0 0	300 13 4	445 3 4	0 14 2	0 7 8	3 15 0	27 10 0	—	0 4 0	32 10 10	333 4 2	477 14 2	6·0	0·7	6·7	8·9	0·7	9·6
10,000	758 6 8	758 6 8	371 17 0	15 0 0	773 6 8	1,145 3 8	0 14 2	0 7 8	3 15 0	27 10 0	—	0 4 0	32 10 10	805 17 6	1,177 14 6	7·7	0·3	8·0	11·5	0·3	11·8
20,000	1,591 13 4	1,591 13 4	935 5 0	28 0 0	1,619 13 4	2,554 18 4	0 14 2	0 7 8	3 15 0	27 10 0	—	0 4 0	32 10 10	1,652 4 2	2,587 9 2	8·1	0·2	8·3	12·8	0·2	13·0
50,000	4,091 13 4	4,091 13 4	2,588 4 0	55 0 0	4,146 13 4	6,734 17 4	0 14 2	0 7 8	3 15 0	27 10 0	—	0 4 0	32 10 10	4,179 4 2	6,767 8 2	8·3	0·1	8·4	13·5	0·1	13·6
1918-19																					
100	—	—	1 4 0	—	—	1 4 0	1 8 0	2 14 0	2 5 0	2 15 0	0 5 6	0 10 0	9 17 6	9 17 6	11 1 6	—	9·9	9·9	1·2	9·9	11·1
150	—	—	1 16 0	0 4 6	0 4 6	2 0 6	1 12 0	3 1 0	3 6 0	4 5 0	0 7 0	0 11 6	13 2 6	13 7 0	15 3 0	0·2	8·8	9·0	1·4	8·8	10·2
200	—	—	2 9 0	0 7 6	2 16 6	1 15 0	3 5 6	4 2 0	5 5 0	0 7 6	0 14 0	15 16 6	18 5 6	0·2	7·7	7·9	1·4	7·7	9·1		
500	33 15 0	43 2 6	7 6 0	1 5 0	35 0 0	51 13 6	1 15 0	3 6 6	4 9 0	5 0 0	0 11 6	0 15 0	15 17 0	50 17 0	67 10 6	7·0	3·2	10·2	10·3	3·2	13·5
1,000	146 5 0	165 0 0	17 14 0	3 0 0	149 5 0	185 14 0	1 15 0	3 6 6	6 0 0	7 10 0	0 17 0	0 15 0	20 3 6	169 8 6	205 17 6	14·9	2·0	16·9	18·8	2·0	20·6
2,000	450 0 0	487 10 0	42 19 0	4 15 0	454 15 0	535 4 0	1 15 0	3 6 6	6 13 0	11 15 0	1 10 0	0 15 0	25 14 6	480 9 6	560 18 6	22·7	1·3	24·0	26·8	1·3	28·1
5,000	1,787 10 0	1,787 10 0	127 0 0	9 0 0	1,796 10 0	1,923 10 0	1 15 0	3 6 6	8 3 0	20 0 0	2 0 0	0 15 0	35 19 6	1,832 9 6	1,959 9 6	35·9	0·7	36·6	38·5	0·7	39·2
10,000	4,187 10 0	4,187 10 0	377 19 0	15 0 0	4,202 10 0	4,580 9 0	1 15 0	3 6 6	9 0 0	36 0 0	2 10 0	0 15 0	53 6 6	4,255 16 6	4,633 15 6	42·0	0·5	42·5	45·8	0·5	46·3
20,000	9,437 10 0	9,437 10 0	933 0 0	28 0 0	9,465 10 0	10,398 10 0	1 15 0	3 6 6	9 0 0	36 0 0	2 10 0	0 15 0	53 6 6	9,518 16 6	10,451 16 6	47·3	0·3	47·6	52·0	0·3	52·3
50,000	25,187 10 0	25,187 10 0	3,826 19 0	55 0 0	25,242 10 0	29,069 9 0	1 15 0	3 6 6	9 0 0	36 0 0	2 10 0	0 15 0	53 6 6	25,295 16 6	29,122 15 6	50·5	0·1	50·6	58·1	0·1	58·2
1923-24																					
100	—	—	1 3 0	—	—	1 3 0	1 1 0	3 10 0	2 15 0	6 0 0	0 7 6	0 8 3	14 1 9	14 1 9	15 4 9	—	14·1	14·1	1·2	14·1	15·3
150	—	—	1 15 0	—	—	1 15 0	1 2 8	4 3 0	4 0 0	10 0 0	0 9 0	0 9 0	20 3 8	20 3 8	21 18 8	—	13·5	13·5	1·2	13·5	14·7
200	—	—	2 5 0	0 5 0	2 10 0	1 4 0	4 8 0	4 15 0	12 0 0	0 10 0	0 9 9	23 6 9	23 11 9	25 16 9	0·1	11·7	11·8	1·2	11·7	12·9	
500	15 3 9	18 0 0	6 17 0	0 12 6	15 16 3	25 9 6	1 4 0	4 12 0	5 0 0	12 0 0	0 14 0	0 10 6	24 0 6	39 16 9	49 10 0	3·2	4·8	8·0	5·1	4·8	9·9
1,000	106 6 3	117 11 3	17 6 0	2 10 0	108 16 3	137 7 3	1 4 0	4 12 0	6 15 0	18 0 0	1 0 0	0 10 6	32 1 6	140 17 9	169 8 9	10·9	3·2	14·1	13·7	3·2	16·9
2,000	308 16 3	331 6 3	49 15 0	4 15 0	313 11 3	385 16 3	1 4 0	4 12 0	7 10 0	28 0 0	1 12 0	0 10 6	43 8 6	356 19 9	429 4 9	15·7	2·2	17·9	19·3	2·2	21·5
5,000	1,346 6 3	1,346 6 3	205 14 0	9 0 0	1,355 6 3	1,561 0 3	1 4 0	4 12 0	9 13 0	50 0 0	2 5 0	0 10 6	68 4 6	1,423 10 9	1,629 4 9	27·1	1·4	28·5	31·2	1·4	32·6
10,000	3,571 6 3	3,571 6 3	592 0 0	15 0 0	3,586 6 3	4,178 6 3	1 4 0	4 12 0	10 4 0	100 0 0	2 15 0	0 10 6	119 5 6	3,705 11 9	4,297 11 9	35·9	1·2	37·1	41·8	1·2	43·0
20,000	8,321 6 3	8,321 6 3	1,808 9 0	28 0 0	8,349 6 3	10,157 15 3	1 4 0	4 12 0	10 4 0	100 0 0	2 15 0	0 10 6	119 5 6	8,468 11 9	10,277 0 9	41·7	0·6	42·3	50·8	0·6	51·4
50,000	23,821 6 3	23,821 6 3	6,394 12 0	55 0 0	23,876 6 3	30,270 18 3	1 4 0	4 12 0	10 4 0	100 0 0	2 15 0	0 10 6	119 5 6	23,995 11 9	30,390 3 9	47·8	0·2	48·0	60·5	0·2	60·7
1925-26																					
100	—	—	1 2 0	Inhabited House Duty abolished by Finance Act, 1924.	—	1 2 0	0 11 0	1 17 6	2 15 0	6 5 0	0 3 0	0 6 0	11 17 6	11 17 6	12 19 6	—	11·9	11·9	1·1	11·9	13·0
150	—	—	1 14 0		—	1 14 0	0 12 0	2 3 9	4 0 0	10 3 0	0 4 0	0 6 6	17 9 3	17 9 3	19 3 3	—	11·6	11·6	1·1	11·6	12·7
200	—	—	2 5 0		—	2 5 0	0 12 9	2 5 3	4 15 0	12 3 0	0 5 0	0 6 9	20 7 9	20 7 9	22 12 9	—	10·2	10·2	1·1	10·2	11·3
500	10 3 4	14 6 8	6 15 0		10 3 4	21 1 8	0 12 9	2 7 6	5 0 0	12 0 0	0 12 0	0 6 9	20 19 0	31 2 4	42 0 8	2·0	4·2	6·2	4·2	4·2	8·4
1,000	81 3 4	97 16 8	17 3 0		81 3 4	114 19 8	0 12 9	2 7 6	6 15 0	18 0 0	1 0 0	0 6 9	29 2 0	110 5 4	144 1 8	8·1	2·9	11·0	11·5	2·9	14·4
2,000	264 10 0	281 3 4	64 18 0		264 10 0	346 1 4	0 12 9	2 7 6	7 10 0	28 0 0	1 12 0	0 6 9	40 9 0	304 19 0	386 10 4	13·2	2·0	15·2	17·3	2·0	19·3
5,000	1,095 15 0	1,095 15 0	316 3 0		1,095 15 0	1,411 18 0	0 12 9	2 7 6	9 13 0	50 0 0	2 5 0	0 6 9	65 5 0	1,161 0 0	1,477 3 0	21·9	1·3	23·2	28·2	1·3	29·5
10,000	2,995 15 0	2,995 15 0	890 17 0		2,995 15 0	3,886 12 0	0 12 9	2 7 6	10 4 0	105 0 0	2 15 0	0 6 9	121 6 0	3,117 1 0	4,007 18 0	30·0	1·2	31·2	38·9	1·2	40·1
20,000	7,370 15 0	7,370 15 0	2,253 18 0		7,370 15 0	9,624 13 0	0 12 9	2 7 6	10 4 0	105 0 0	2 15 0	0 6 9	121 6 0	7,492 1 0	9,745 19 0	36·9	0·6	37·5	48·1	0·6	48·7
50,000	22,120 15 0	22,120 15 0	6,621 18 0		22,120 15 0	28,742 13 0	0 12 9	2 7 6	10 4 0	105 0 0	2 15 0	0 6 9	121 6 0	22,242 1 0	28,863 19 0	44·2	0·2	44·4	57·5	0·2	57·7

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